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Some Accounting Methods

Peculiar to

Motion Picture Producers and Distributors

by

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Thesis

Submitted in partial fulfillment of the requirements for the degree of "Master of Business Administration" in the College of Business Administration, Boston University.

Alfred Kaplan

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PREFACE

"Purveyors of romance," as Wm. R. Donaldson* aptly describes them, is a synonym for motion-picture producers.

The rise of the motion-picture industry is one of the business romances of the United States. Twenty-five years ago the first motion-picture theatre was opened in Pittsburg, Pennsylvania, although the first motion picture was shown by Edison in 1896. At the present time there are approximately twenty-two thousand six hundred motion-picture theatres in the United States, with an average daily attendance of seventeen million people. Approximately two hundred fifty thousand people are employed in the industry, and the annual pay-roll is in excess of \$500,000,000. The motion-picture industry now ranks as the fourth industry of the country, with a capital investment estimated as from \$2,500,000,000 to \$2,650,000,000.**

* "Valuing the Inventories of Motion Picture Producers," Journal of Accountancy, 1927.

** Columbia Picture Corporation, Prospectus, April, 1930.

N. M. Schenk* has abruptly stated the outlook for the industry as follows:

"Exhibitors and executives of the motion-picture industry may join with each other in welcoming the coming years as one that is certainly to be a landmark in the motion-picture industry. Never before were there so many opportunities confronting the makers of motion pictures. There have been more developments during the past year than during any other year since the beginning of the industry. Sound and color have established themselves as basic factors in the quality entertainments of the coming season and motion-picture audiences put an unqualified stamp of approval on the great advances made in this direction.

The financial outlook was never better and most companies have gone through a period of expansion which enables them to utilize more resources than ever before in providing the public with the kind of entertainment which it wishes."

* Film Daily Year Book, 1930--Page 559.

The above remarks by the president of Metro-Goldwyn-Mayer indicates the consensus of opinion of the leaders of the industry.

The production budgets of the major producing companies for the year 1930 are in excess of \$75,000,000. Such a huge sum expended in securing images on tiny strips of celluloid, seems to ask the question, how is the amount spent, and in what ways are the expenditures and amortization of this same amount recorded?

The author has attempted to answer the above question in this paper and many thanks are extended to the following men for their helpful suggestions and for their criticisms of the material embodied in this thesis: Max Fleischer, (Fleischer Studios); Myer Coleman, (First National Pictures); John Shanley, (Van Beuren); and Dick Murray, (Paramount Publix Organization).

INTRODUCTION*

The motion picture is the latest machine tool in the service of expression. The first motion picture camera brought action into graphic art.

The first pictures were simple, and were merely records of events. In 1907, D. W. Griffith brought into first practical use certain methods of pictorial emphasis, such as the "close up," "cut back," "fade out," and "dissolve." All pictures were "one-reelers." "Ben Hur" was made in 1907 in sixteen scenes. Multi-reel pictures began to appear later, due to the hostility of exhibitors.

For many years players appeared anonymous. It was the idea of Adolph Zukor to bring famous names to the screen. His exhibition of Sarah Bernhardt in "Queen Elizabeth" in 1912 indicated the merit of his idea. This immediately revolutionized the industry. The picture "Quo Vadis" in eight reels released in 1913 met with great success and was immediately followed by many other pioneer multi-reel films. The greatest success of this period was Griffith's "Birth of a Nation." It was not long after this that comedies were

* Encyclopedie Britannica--fourteenth edition.

produced over one reel in length.

The ability of films to cast aside language barriers made it apparent at an early date that motion pictures had an international appeal. At the beginning, foreign producers dominated the American market. Due to the World War, production was stopped in Europe, and American producers soon were far ahead of any competition. In 1925 exports of American film amounted to 235,000,000 feet and were shown in seventy countries.

The latest innovation in the industry today is sound and color. Sound had a revolutionary effect on many phases of production and exhibition. Reproducing devices were installed in many houses, but, due to the high cost of the mechanism, many small houses could not afford sound. This caused the pictures to be produced in two versions, silent and sound. At the present time the producers are having a problem with foreign versions, as it is not practical to make other than English versions at the studios.

Thus far, two methods of recording and reproducing sound have been invented. One of these embodies the synchronization of the film, with the sound record recorded on a disk, in the same manner

as in the case of a phonograph. This system is known as the "Vitaphone." The other method involves the recording of the sound along the edge of the film by photographic means. The film area is slightly diminished and a narrow strip is devoted to recording the sound waves.

The sound is picked up by a microphone, which is the same method used in radio broadcasting. The electric currents are then amplified to give either loud or soft sounds, as desired. Colored motion pictures have been invented. Cecil B. De Mille's "Ten Commandments" and other films were pioneers in the use of color.

Many processes were invented to introduce color, but it remained for "Technicolor" to invent the only success. In this process two negatives are printed on separate strips of film. The prints of them are then converted into reliefs by tanning and washing; after this process they are dyed. The two films are then cemented together back to back in exact register to make a film of standard thickness carrying a colored image on each side. Modifications of this method are also used.

Motion pictures synchronized with dialogue,

music, and color have in many instances enriched the literature of the screen. It is now possible to depict certain types of stories to better advantage than permitted by silent films. Many screen stories, however, are most effective when depicted in silence, and in some cases synchronized music and sound effects combine to make the pictorial matter more entertaining than would be the case if spoken dialogue were used. Pictures of the caliber of "Uncle Tom's Cabin" and "Wings" have a greater appeal as silent films, synchronized with sound and music, than they would as dialogue versions. In other words, some screen stories are adapted to the human voice and some are not. It is therefore necessary to make judicious use of each of these elements if the best results are to be obtained.

Motion Picture Producers and Distributors
of America, Inc.*

This association was formed for the purpose of advancing the industry. Attempts were made to organize the industry in order to achieve the above purpose.

* Arbitration Year Book, 1927.

A conference of the leaders in the industry in 1921 included the leading producers and distributors in America, and resulted in the formation of this organization, comprising twenty-four subsidiary offices in the United States and Canada. This group is also known as the "Hays" organization, due to the fact that Will H. Hays is its president.

The main purpose of this group was to settle disputes between distributors and exhibitors by means of compulsory arbitration. A standard exhibition contract was drawn up for use in the industry; this contract included an arbitration clause. Rules for settlement of disputes were also drafted and adopted by exhibitors and distributors.

The service rendered by arbitration was great. A summary of 1926 figures follows: 12,566 disputes were disposed of, and of these: 5018 disputes were settled before submission to the Boards of Arbitration; 5476 awards were made by these boards; 812 disputes were withdrawn by the complainants; 440 disputes were dismissed. In only 25 cases of the total number of disputes was an outside arbitrator required. It is obvious from the above that these so called "Film Boards of Trade" were a very good method of settling disputes.

. We shall not discuss the arbitration rules .
and regulations due to the fact that compulsory
arbitration has been ruled illegal by a federal
court, and thus compulsory arbitration is denied
to the film business.

Some Accounting Methods Peculiar to Motion-Picture
Producers and Distributors

"The books must be in code," This is the impression the uninitiated receive when introduced to a set of books containing the accounts of motion-picture producers and distributors.

The author, who has been connected with the industry for several years, has served in all capacities related to the accounting departments of these industries. I say industries because there are three distinct phases of the motion-picture industry, namely,--production of pictures, distribution of pictures, and exhibition of pictures. These three industries are usually separate and distinct by the formation of subsidiary companies. I have only to point out such companies as Paramount Publix, Warner Bros., Fox Film Corp., and R. K. O. to support the foregoing statement.

The author of this paper, while in the course of his experience, has many times had occasion to look for advice on account of some peculiar transaction that had arisen in the usual course of events. But, as far as literature on the subject, there was very little. Many textbooks were taken down and perused, various accounting journals were

thumbed again and again, but all in vain. Consequently, the only solution of the problem was to apply common-sense procedure, which was ex cathedra as far as this writer could learn.

Once a year the executives of the producing organizations meet in conference and decide what shall be produced for exhibition during the coming year. They set aside a certain sum of money to be used in the production of pictures.

This budget usually covers all program and super-feature pictures. The average production schedule calls from twenty to fifty features to be produced in a year although many production schedules have to be revised due to the wasteful and inefficient methods of certain organizations.

Some of the larger organizations have east and west coast studios, while some have foreign studios, such as Paramount's in Joinville, France. The studios usually keep their own cost records; their accounting records are handled in the same manner as the average branch. When the home office sends them budget money they enter it as follows:

Cash	-----
Home Office	-----

The cost of all negatives finished and delivered to the home office is handled as below:

Home Office	-----	(for the
		) cost
		) value
Finished Negatives	-----	) expended
		) on same

The home office will handle all remittances to the studios in the following way:

Joinville Studio	-----
Cash	-----

Finished negatives received by the home office will be carried at cost and credited to the proper studio account. Other charges such as unabsorbed studio overhead, losses, etc. will be handled by the home office and credited to the studio at their respective values. Consolidated balance sheets will eliminate all inter-company accounts at the end of fiscal periods.

Motion pictures are the picturization of stories, books, plays, historical events, and the like. In order to depict a popular story or play on the screen, the picture rights must be purchased from the author or owner. After purchase of these rights, the story must be broken down, analyzed, and scenarios prepared. These scenarios are distributed to the various production department

heads who estimate the cost. After the production executives prepare their estimates, they submit it to a finance committee who usually are the studio executives. This committee then analyzes the estimated costs and compares them with costs allowed in the film budget as set by the home office executives. Sometimes the costs may be in excess of the budget estimate, in which case, certain scenes in the picture may be eliminated. After the estimates are passed by the finance committee the picture is put into production.

There are not many peculiarities to costing a film "vehicle". Charges to film are of two classes: direct and indirect or studio overhead. In some cases it is of the utmost importance to have a proper differentiation between direct and indirect charges, due to the fact that advances and sharing in gross film rental is highly dependent on the direct cost of the picture. Some distributing companies compute their advances to the producer to cover production cost mostly on the basis of the producer's direct cost; that is, they disregard the producer's overhead on the grounds that overhead is "loaded down" with items that are of a non-operating nature and

should not increase the cost of a picture. The effect of the above on a producer's net income is well illustrated by the following exploitation contract:

The "X" Film Corporation (known as the producer) contracts with the "A" Distributing Corporation (known as the distributor) to produce five pictures for the "A" Corporation during 1931. The "A" Corporation shall have the rights to distribute and exploit these films for the ensuing ten years in the United States. In return the "A" Corporation agrees as follows:

1. It shall advance to the "X" Corporation at the date of delivery of each negative \$150,000.00, which it is estimated will cover actual production costs.

2. The gross film income received by the "A" Corporation from the exploitation of said films shall be divided as follows: fifty per cent of the gross amount shall be allocated to the "A" Corporation to cover the costs of distribution and the remaining fifty per cent shall be divided as follows: The distributor shall first reimburse him-

self for all advances made to the producer, after which, the remaining balance will be divided between the producer and distributor in the ratio of "50-50".

The clauses in the contract cited above will have an effect of either reducing or increasing the producer's net income fifty per cent, based on the amount of the advance, which is shown by the following examples:

Case A. Negative Advance \$150,000.00

Gross film income received	\$400,000.00
by the Distributor	
Distribution costs retained	<u>200,000.00</u>
Balance to be allocated	\$200,000.00
Negative advance recouped	<u>150,000.00</u>
Balance to be divided	\$ 50,000.00
Producer's share (50%)	\$ 25,000.00

Producer has received to date \$175,000.00.

Case B. Negative Advance \$200,000.00

Gross film income	\$400,000.00
Distribution costs	<u>200,000.00</u>
Balance	\$200,000.00
Negative advance recouped	<u>200,000.00</u>
Balance to be divided	None

Producer has received to date \$200,000.00 an increase of \$25,000.00 over the amount cited in Case A.

It is obvious that due to the difference in the advance in the cases illustrated above the producer has gained to the extent of fifty per cent of the increased amount. The reader can now understand why it is necessary to charge directly all production expenses to the individual films instead of carrying some items of an uncertain nature in the overhead account. The higher the prime cost of a picture, the higher the advance should be, and the net income will be ipso facto higher to the producer. It should be understood that the prime cost of the negatives produced must be within a reasonable figure, otherwise the advance will be lower than the prime costs of production, for distributors will not encourage extravagance by paying higher advances than necessary to buy film.

Motion Picture Production and Exhaustion

Accounting methods peculiar to this phase of the industry have to do with costing a picture and with the exhaustion of its cost.

Pictures are produced with the intention of selling them and making a profit, although many productions have been "shelved" to the ultimate dissatisfaction of a sadder but wiser producer.

There are not many peculiarities to costing a "vehicle". Amounts entering into the cost of pictures usually are summarized from sub-analysis cost sheets which each department keeps to record its costs. These sheets are analyzed and posted in one total to the main cost sheet. The charges are broken down by each department so as to classify them and bring them on the cost sheets.

Some of the prime costs chargeable to pictures are as follows:

1. Synchronization Costs

- a. Salaries of musicians and sound recording technical men
- b. Payments for music rights
- c. Overhead of the music department
- d. Charges incurred in the recording of sound, such as the cost of the sound film, and the making of re-

cords and sound tracks.

c. License fees for sound recording.

The only item that needs any explanation is "c", above. With the innovation of sound pictures, producers of "talkies" have had to pay a license fee for each reel of film recorded on sound. Under the franchise agreement of the Electrical Research Products Inc., "producers pay \$500.00 per reel for each talking picture recorded on Western Electric mechanism. The same price per reel is added for each additional version (foreign) and still another \$500.00 per reel if the foreign edition is to be shown in this country."* This recording fee amounts to \$3000.00 to \$4000.00 per feature picture produced for American release, and should be immediately absorbed into the cost of production of the respective pictures produced.

2. Salaries of Persons Engaged in Production

Under this heading come salaries of people who work on the negative. These costs will include salaries of stars, directors, extras, cameramen,,

* Variety, July 2, 1930--Page 49.

special working technical men, and other persons who are employed in producing the picture. These salaries should not include indirect labor for that is charged to the picture through the overhead distribution.

Sometimes the leading characters in the picture may have contracts which guarantee them a certain percentage of the gross receipts in addition to their salary. In other cases the stars produce the picture themselves and the profits are divided between the producing company and the distributing company. In this case the only salary the star will receive is their share of the profits resulting from the physical distribution and exploitation of the picture. This situation is true of some film stars who release through the "United Artists" organization. The first case cited above is true of the salary agreement entered into by "Amos and Andy" and the Radio Keith Orpheum Producing Corporation in the picture "Check and Double Check". Profit sharing agreements should not be considered as part of the cost of the negative, for it is obvious that the cost is

.

not increased due to the fact that the artist shares in the gross income or net profit.

3. Play Rights

Each film producing organization must have stories on which to base their films. The companies usually attempt to purchase the film rights of successful books, plays, and other possible film material. Sometimes the producers pay fabulous sums for film rights to certain plays and then find that the play cannot be adapted to the screen. In other instances the costs of the play rights are not justified by the gross income received.

Producers must, of necessity, spend much money and secure many "stories" in order to produce pictures. The "Play Rights" or "Literary Rights" account should be charged with the cost of all stories purchased for subsequent exploitation. The account should be set up on the balance sheet as an asset until the pictures are ready for production. As soon as a picture has been put into production the cost of the "story right" should be immediately transferred to negative costs by an entry charging "Work in

Process" and crediting the "Play Right" account for the cost of the rights.

The balance of this account should represent the cost of all story rights unused and should not include any worthless screen rights. Stories are usually rewritten and adapted to the screen by the scenario department. All scenario expense incidental to the "treatment" of stories is transferred to the cost of negatives by a journal entry.

4. Material, Lights, and Properties

Expenses for studio properties include the buildings, electrical work, equipment, movie and "still" cameras, and properties; which usually cover furniture, scenery, etc. The wardrobe used in production may be purchased by the actor or the company depending upon the particular contract. If the above named items are rented by the studios the rental price should be included in the cost of the negative. If these items are purchased, the studios may charge their entire cost to the films they are used in, provided they are of such a special

nature that they may not be used again.

The charges for the use of the building, electric equipment and cameras used in production are arrived at through regular depreciation rates and are charged to the film accounts by the distribution of overhead. If the purchased "props" or scenery can be used more than once they should not be charged to the cost of one picture but such cost should be distributed over a number of pictures.

5. Location Fees and Expenses

In order to properly depict many film stories, the casts must go on location; that is, they must travel to a locality which will clearly give the picture a realistic tint. Many times the producers have to pay the owners of the location a fee for the use of their land, buildings, or other items utilized in the production of the picture. All costs of this nature should be immediately charged directly to the proper negative. All travelling expenses should be included under this item. Transportation expenses may include hotel, auto, accident, and other expenses of a similar nature.

6. Developing Laboratory Costs

In order to exhibit a film the negative must be developed and then printed on positive films. Most producing companies have their own developing and printing laboratories. Here the exposed negative film is developed and then printed on show copies or positive prints. Charges to the respective film production accounts for the cost of film include the following laboratory expenses.

A. Negative and Positive Films

Raw stock and color film used in
Production, cutting, editing and
Assembling positive work prints
And still pictures.

The cost of all raw film used in "shooting" negatives must be charged to picture costs. After a negative had been developed and printed it is cut, edited, objectionable parts eliminated, assembled, and finally work prints are made.

All charges arising from the above operations should be carried to the respective picture accounts for which they were incurred.

B. Developing Laboratory Expenses

Included in this class of expense are charges for depreciation of plant, indirect labor, such as superintendence, taxes, insurance, and other indirect expenses applicable to developing positives and negatives. These charges are transferred to negative costs on the basis of film footage of positives and negatives developed during the time under review. The distribution is handled as follows:

Total Footage Developed 40,000 Ft.

Total Laboratory Cost \$1,000.00

Negative and Positive
Footage Developed

Cost Applicable
To Each Film

	:	
	:	
Production # 15--8,000 Ft.	:	\$200.00
" # 16--8,000 "	:	200.00
" # 17--8,000 "	:	200.00
" # 18--8,000 "	:	200.00
" # 19--4,000 "	:	100.00
" # 20--4,000 "	:	<u>100.00</u>
40,000 Ft.	:	\$1,000.00

The above charges are transferred to negative costs by the following Journal entry:

Work in Process \$1000)--Individual	
Laboratory Expenses \$1000	Negatives

7. Patents and License Fees

Some producers in order to picturize certain stories or depict special scenes have had to pay a patent or license fee based on the footage of film used in production. An example of this is the exploitation agreement between the Bray Studios (holder of patents rights) whereby they licensed Max Fleischer, (known as the Producer) to produce song cartoons by means of patented processes which the Bray Studios control. In return for this license the producer pays a license fee based on the released footage of cartoon photography animated in the manner of the patent.

If the producer of films holds patents to make pictures by special processes, the cost of these patents should be amortized on the basis of potential film footage which will be produced by this special process. If a patent costs a producer \$10,000.00, he estimates that he will in

a series of years produce one hundred thousand feet of film based on these patents, then patent exhaustion per foot of film produced will be ten cents. All charges for license fees and patent exhaustion should be carried direct to production costs based on the footage of each individual negative that these special charges are applicable to.

8. Miscellaneous Income

Producers may rent or sell sets, wardrobes, props or even their stars to other studios. All income received from these sources including income from studios rented should be credited directly against overhead costs. In some cases it is permissible to credit income from the above sources directly to asset accounts. This situation is true when part of the star's salary is deferred from period to period, a method used by some studios in allocating heavy salary costs to pictures.

At the present time the larger producing companies sponsor "flash" advertising in their features and news reels. The income from such sources may reach as high as \$50,000.00 a "shot."

This income may be credited against the overhead charges to the negative, but in most cases it is handled as advertising income by the home office. In any event the first method cited above is more conservative, but it has the disadvantage of misleading interested persons into thinking that the overhead costs have become lower and therefore it is not best to use this method indiscriminately.

The policy of inter-change of studio talent is being settled. At the present time the major studios are frowning on any lending or borrowing of talent. This is due to the fact that under the rules of the American Academy of Arts and Science an actor "loaned out" must remain so until his work is finished.

"Loan contracts call for four week minimum plus a three week carrying charge which represents seven weeks salary paid by one studio to the original contracting studio. The latter producer rarely makes money on its loan arrangements, as a loan inevitably mixes up production matters on the home "lot" through unforeseen circumstances.

These usually arise when a pre-scheduled picture cannot be cast immediately, thereby pushing ahead a later film for earlier production. People who have been "farmed out" meanwhile are not available to their own studios." *

Overhead

This represents all expense items which cannot be charged directly to film costs. They comprise some of the following items:

1. Depreciation of studios and equipment
2. Cost of upkeep to studio, buildings, and equipment
3. Light, heat, power, etc.
4. Taxes and insurance on studio property and equipment. (Insurance on finished negatives may be charged to the negative directly.)
5. Worthless play rights and the scenario expense attributable to it.
6. Indirect labor such as the salaries of studio executives, janitors, watchmen, etc.

* Variety--Oct. 31, 1931--Page 4.

7. Other miscellaneous expense items.

8. Cost of negatives "shelved".

The overhead is usually distributed on the basis of prime costs to the negative by predetermined overhead rates. An illustration of this is shown as follows:

Total prime cost (1930) \$1,000,000.00

Actual overhead (1930) \$2,000,000.00

In 1931 if a negative has had \$100,000 expended on it in prime costs, the overhead will be \$200,000.00 based on the previous predetermined rate for 1930. The entry to record this overhead distribution is as follows.

Work in Process (Prod.) \$-----

Reserve for Overhead \$-----

The "Reserve for Overhead" account is credited for all overhead distributions during the year. At the end of the year the actual overhead accounts are charged directly to this "Reserve" account. Any balance in the "Reserve" account will represent unearned or overearned "Overhead" which will be transferred to the Home Office who in turn will handle it as a profit and loss charge or credit as the case may be.

We will now discuss the main accounting records of the average producing organization. The accounting procedure is practically standardized in most of the national motion picture companies and therefore not much difference in procedure is encountered among companies.

Books and Records of Motion Picture Producers

The main books and records used by Producers are as follows:

Cash Books

Received and Paid

Voucher Register

Payroll Book and Cards

Work in Process Ledger

Finished Negative Ledger

Journal

Income Record

Distributors' Charges Record

Cash Receipts

This is a form of record drawn up to record the receipts of cash. The columns may be provided as follows:

Date

From Whom Received

Cash Received

Advance Deposits from Distributors

provided as follows:

- Date Paid
- To Whom Paid
- Check Number
- Net Cash Paid
- Discount on Purchases
- Voucher Payable
- General Expenses and Miscellaneous

All payments except those of a petty cash nature are made by check. When a bill is paid, the book-keeper will record the transaction as follows:

Date Paid, To Whom Paid, Check Number, Cash Paid.

The distribution will then be made in its respective column. A form of cash paid book is as below:

CASH PAID							
Month of							
Date	To Whom Paid	F.	CASH PAID	Disc.	VOUCHERS PAYABLE	General Account	Amt.

Voucher Register

In this book all supplies, expenses, pay-rolls, and items involving a liability of any nature to the company will be recorded. Provision should be made for the following captions: Date, From Whom Purchased, Voucher Number, Vouchers Payable, Work in Process, General Administration Expenses, and a General Ledger column. The book will appear as follows:

[illegible]

The first thing I noticed when I stepped out of the car was the cold. It was a sharp contrast to the warm blanket of the car. I looked around, trying to get my bearings. The street was empty, the only sound being the distant hum of traffic. I took a deep breath, feeling the cold air fill my lungs. I knew I had to find my way to the office, but the fog was thick, and the streets were unfamiliar. I started walking, my feet crunching on the wet pavement. I tried to remember the route I had taken the last time I was here, but the fog was too dense. I kept walking, my heart pounding in my chest. I knew I was lost, but I didn't know how to get back. I kept walking, my eyes scanning the street for any sign of help. I was alone, and I was scared.

CHAPTER 10

Date		Time		Location		Notes	
10/10/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/11/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/12/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/13/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/14/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/15/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/16/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/17/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/18/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/19/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/20/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/21/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/22/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/23/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/24/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/25/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/26/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/27/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/28/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/29/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/30/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30
10/31/2023	10:00	10:15	10:30	10:45	11:00	11:15	11:30

The charges to the Work in Process must be analyzed as to the particular production to which it applies. Monthly, this column will further be analyzed as to the charges in the account; payroll, "props," scenario, etc.

Payroll System

As the cost system is based on job costs, all charges for payrolls must be analyzed as to the particular production on which they were incurred; to illustrate:

John Richards has a weekly salary of \$1000. The production clerk must record daily the picture Mr. Richards has been engaged in. A card system is drawn up for this as follows:

Time Card					
NAME	Week Ending				
DAY	Prod 85	Prod 86	Prod	Prod	Total Hours
Mon.	8-12	1-5			8
Tue.	8-5				8
Wed.		8-5			8
Thur.		8-5			8
Fri.		8-5			8
Sat.		8-5			8
Overtime					.
Total	12 -	36 -			48

Weekly, the payroll cards are summarized on a summary sheet drawn up as follows:

Payroll Week Ending _____							
NAME	TOTAL PAYROLL		Prod \$5		Prod \$6		Prod
J Richards	1000	-	250	-	750	-	
H. Doe	500	-	500	-			
J. Roe	3000	-	3000	-			

35

the Voucher Register. The payroll per the payroll book should be in agreement with the payroll as shown in this column in the Voucher Register. It should also be in agreement with the cash drawn.

Work in Process Ledger

This ledger is a record of the pictures in process. There is little need of any explanation regarding this account, as it has the same features as all cost records.

Finished Negative Ledger

This ledger is a record of negatives finished and released. When a picture has been finished, its respective cost sheet is transferred from the Work in Process ledger. The finished cost sheets should be kept in this ledger for at least two years following release of the negative. After this time has elapsed, the cost sheets should be abstracted and put into a permanent record for statistical purposes. The Finished Negative ledger is a very vital part of a motion picture producer's account, and should be kept as accurately as possible.

Journal

The Journal will be used to record all

entries which cannot be recorded through the above-listed books. Such entries as producer's share, distribution of overhead, etc. will be put through the journal. The form of journal used is the simple kind used in everyday practice.

Income Record

The producer should have an accurate record of income as reported by the distributor. The form of this record is as follows:

Income Record									
Distributor									
Date of Report	Prod. No.		Prod. No.		Prod. No.		No.	No.	
	Gross	Net	Gross	Net	Gross	Net		Gross	Net

The record should be in agreement with the totals recorded by the distributor in his monthly statements. Each month the clerk should transfer the gross and net income, as reported by the distributor, to the respective columns on this form. This form serves as a basis for the monthly journal entries bringing the income and royalties due, on the books.

Distributor's Charges

This form should be drawn up in the same manner as the Income Record, with the exception of the "net" column. The clerk should record the distributor's charges in the same manner as the income was recorded. All charges should be verified and agreed upon as correct by someone in authority before they are passed to the clerk for entry. This writer has encountered duplication of charges which might have been passed as correct if it were not for their peculiar nature; also charges which should not have been charged to the producer were made by the distributor. This point of procedure is very important, and should be passed upon by some one in authority rather than be settled in the usual slipshod manner. The distributor's charges are also used as a basis in recording the monthly journal entry of income due from the distributor.

After the picture has been completed, cut, and assembled, it is ready for issue to the distributor. The costs are totaled and transferred to the Finished Negative account. At the same time the respective job cost sheets are abstracted from the Negative in Process ledger and attached

to the Finished Negative ledger. The journal entry to record this procedure is as follows:

Finished Negatives \$-----

Negatives in Process \$-----

The totals of the subsidiary ledgers should be in agreement with the above controlling accounts.

Pictures are usually sold by three methods. I believe the most favorable method is by an outright sale if the negative is sold to some unallied distributing company. Another method of sale is on a future percentage basis, with a small amount of cash received in advance which will be offset against the share of income that the producer is entitled to receive from the distributor. Inter-allied producing companies may receive a small advance from their allied distributor. Contracts usually entered into are of a type in which the producer receives a large percentage of gross income collected by the distributor until the distributor's charges have been cleared; then the percentage is automatically lowered to a smaller base rate of the gross film income received by the distributor.

Where a picture has been sold outright, there is no future revenue to be received on it; the

amount received should be applied against the cost of the negative immediately. The cost is thus written off by the following entries:

Cash	\$-----	)	for the amount re-
		)	ceived from the
Income Prod.	\$-----	)	sale of negative

Income Prod.	\$-----	)	for the
		)	profit
Finished Negatives	\$-----	)	made on
		)	the neg-
Profit on Negatives	\$-----	)	ative

It is obvious from the above procedure that there is no problem when pictures are sold outright.

But the modus operandi has to be changed when a picture is sold on a percentage basis with an immediate advance. The advance should be set up as a deferred credit to income, as shown by the following entry:

Cash	\$-----	
Advance Deposits		\$-----

Each month a report is received from the distributing company, showing the business done on each release, and the producer's share of income. After an analysis is made of this report, journal entries are in order to record it. The entries are as follows:

Cash \$-----

Distributor's Share \$-----

Income \$----- (gross income reported)

Cash may not be received, but charged against the initial advance received by the producer. In this case the Advance Deposit account will be debited instead of cash.

Some distributing contracts have clauses in them which provide that all necessary expenses incurred by distributors in the process of exploiting the picture shall be charged back to the producer against his share of the net, or shall be shared equally and charged against gross income of the negative in question. Care should be ~~ex~~ercised to take this point into consideration when analyzing the reports. All charges paid or incurred by the distributor are itemized in the monthly reports rendered by them to the producer, and are deducted from the net or gross returns, depending on the contract. If the charges are deducted from the net due the producer, the distributor should be credited for the amount, and the proper accounts on the producer's books should be charged. To illustrate:

Distributor reports \$200.00 gross income; his

share is 40%; he incurs charges for prints, censor fees, etc. amounting to \$40.00. The producer will pick up the above transactions on his books by the following entry:

Distributor's Share Prod.XX	\$80.00	
Positive Prints or Fin. Neg. Prod.XX	\$40.00	
Cash or Advance Deposits	\$80.00	
Gross Income Prod. XX		\$200.00

Some producers pick up charges on negatives released to either a Positive Print Account or to the Finished Negative Account, depending on their accounting methods, which will be explained further on in this paper.

The question now asked is, how shall the cost of the finished negative account and positive prints be extinguished? The part of the cost to be written off is usually determined by scientific methods, from experience tables which producers build up showing the normal life of a motion picture. Producers usually have tables showing how much different classes of pictures earn in the period or months following their release.*

* "Valuing the Inventories of Motion Picture Producers"--"Donaldson"--J. of Accountancy, 1927. R. H. Montgomery--"Auditing Theory and Practice"--Volume 2.

As the earning power of the pictures decreases, the cost usually should be correspondingly reduced, and from an accounting viewpoint the original cost is amortized by that part of the earning power which has or should have been earned. To express it in a formula, it is as follows:

$$\frac{X}{\text{total cost}} = \frac{\text{Income Received}}{\text{Estimated gross Income}}$$

X represents the proportion of cost to be amortized during the period, leaving in the inventory only the residual value. Methods and rates of amortization used by the various companies are not all the same, due to methods of distribution, reputation of pictures, and the exhibition outlets. The average feature picture is amortized about 88% the first year following release, and about 1% a month the second year. Short subjects, comedies, news reels, etc. are amortized within a year, based on sliding scales. In some cases all income is written off against costs (Fleischer Studios).

Accounting methods applied by the companies in the depreciation policies as announced in their

application to list on the New York Stock Exchange are as follows:*

Paramount Publix**

The greater portion of the inventory of the corporation is composed of negative and positive films. After a picture is finished it is carried on the books at actual production cost. Eighty-five per cent of this cost is allocated to the United States and Canada. Within three months after release in the United States and Canada, an average of seventy to seventy five per cent of the inventory cost is written off; at the end of twelve months all of such allocated cost is written off. Fifteen per cent of the total cost is allocated to foreign countries, and written off within two years. Thereafter each picture is carried on the books at a nominal value of one dollar, although it has a residual value constituting a permanent asset.

* New York Stock Exchange Listing Applications

** New York Stock Exchange Listing Application, April, 1930.

Radio Keith Orpheum* May, 1930 N. Y. St. Ex.

<u>Month:</u>	<u>Prints</u>		<u>Features and Comedies</u>	
	<u>Per Cent</u>	<u>Cumulation:</u>	<u>Per Cent</u>	<u>Cumulation</u>
1	14	14	12½	12½
2	14½	28½	17	29½
3	14	42½	15	44½
4	13	55½	11½	56
5	10	65½	9	65
6	8½	74	6	71
7	7	81	5	76
8	6	87	4	80
9	4	91	4	84
10	3½	94½	3	87
11	3	97½	3	90
12	2½	100	2	92
13			2	94
14			2	96
15			1	97
16			1	98
17			1	99
18			1	100

* New York Stock Exchange Listing Application,
May, 1930.

Warner Bros. Pictures Inc.*

Costs of producing motion picture negatives are amortized over a period of eighty eight weeks from date of release in United States as follows:

After	4 weeks	---	13 %
"	6 "	---	20 "
"	13 "	---	42 $\frac{1}{2}$ "
"	16 "	---	50 "
"	26 "	---	65 $\frac{1}{2}$ "
"	39 "	---	79 $\frac{1}{2}$ "
"	40 "	---	80 "
"	52 "	---	86 $\frac{1}{2}$ "
"	59 "	---	90 "
"	88 "	---	100 "

The schedule of amortization rates is based upon the experience of the Corporation in regard to the income derived from the distribution of pictures. The date set for the start of the amortization is the pre-release date.

The date of initial release in foreign

* New York Stock Exchange Listing Application April, 1931.

countries is normally six months after the release date for United States and Canada. The Corporation, however, does not assign any of its negative cost to foreign distribution, although past experience has shown that from twenty to fifty per cent of the negative cost might properly be assigned thereto. The amortization tables now used by the Corporation would provide for the complete write-off within forty weeks of the eighty per cent which might properly be allocated to income derived from distribution in the United States and Canada.

Positive film costs are written off as follows:

After	6 weeks	---	23 %
"	16 "	---	58 "
"	22 "	---	81 "
"	40 "	---	94 "
"	52 "	----	100 "

Fox Film Corporation

"Due to the lack of uniformity of opinion respecting the treating of write-off of film costs the Corporation had audits prepared by two separate auditing organizations. The basis of the film write-off was finally set forth as

follows:

"Since sixty seven per cent of current film rentals are from domestic sources and thirty three per cent from foreign, sixty seven per cent of feature picture costs are written off from domestic rentals and thirty three per cent foreign. Fifty per cent of the gross domestic rentals received from each film is set aside for amortization for fifty two successive weeks following its first release. If the sum thus set aside for amortization exceeds sixty seven per cent of the cost of the film, a credit for the difference is taken into the Income account. If it falls short of the sixty seven per cent of the costs the deficiency is at once charged against the income of the company. The portion allocated to amortization from foreign rentals is treated in the same manner after making allowances for the later release dates." *

An analysis of the above statement is necessary to make that part of the report clear to the reader;

* Report--Fox Film Corporation--June 1, 1931.

Negative cost to produce	\$100,000.00
Amount allocated to American cost	67,000.00
" " " Foreign "	33,000.00
Income from U. S. for one year	200,000.00
" " Foreign " " "	50,000.00

The income accounts on the Fox Film books should be as follows:

Income allocated to American cost	\$100,000.00
" " " Foreign "	<u>25,000.00</u>
Gross Income allocated to picture costs	125,000.00
Picture costs (American and Foreign)	<u>100,000.00</u>
* Net Income from exhibition	\$ 25,000.00

* Subject to Income not allocated less distribution charges and other expenses.
 (The above schedule is based on the fact that the foreign release date is the same as the American release date, which is not strictly true, but assumed to be so for the purpose of illustrating this problem.)

Comparison of the Major Company "Write-Offs"

A quick glance would lead the reader to believe that the Fox Film Corporation has the quickest write-off of film costs. This is not true, however, if an analysis is made of the different tables; set forth as follows:

	<u>Cost Assigned to United States</u>	<u>Cost Assigned to Foreign</u>
Paramount	85%	15%
R. K. O.	100%	none
Warner Bros.	100%	none
Fox	67%	33%

Per cent Written off in a Period of Twelve Months.

	<u>After twelve months (Domestic & Foreign)</u>
Paramount	93 % (approximately)
R. K. O.	92 %
Warner	86½%
Fox	85 % (approximately)

Paramount Public has the fastest rate of write-off due to their exhibition outlets. They can practically write off the entire cost of a picture by first run exhibitions in their own houses.

Producers should not fool themselves as far as foreign income is concerned. This foreign income will have a tendency to decrease due to the fact

that American "talkies" have had a decreasing appeal to the foreign theatre-goers because of language barriers, contingents or tariffs set upon the import of American films. At the present time foreign film companies are able to compete with the American product; in fact, the German films are more in demand in certain European localities than our films.

Any company that allocates more than a nominal percentage of their costs to foreign income should be viewed upon as not very conservative.

Most of the major companies have established foreign studios for making foreign versions of their American made films. The costs applicable to these "multi-linguals" is and should be properly allocated to foreign income; for they do meet with foreign approval if interpreted in the customs and manners of the country that the film is intended to be released in.

Fleischer Studios, Producers of Animated
Cartoons

All income is written off against costs as soon as received. Amortization usually is 100% complete within five months following release. This has resulted in the creation of secret reserves on this company's Balance Sheet. Income was still being received on negatives which were completely written off and not shown on the Balance Sheet in any amount. The Balance Sheet in this instance does not show all assets, and would be unfavorable to the company if they wished to borrow money on the strength of same.

The rate of amortization on this class of film is not fixed, although the cost of these negatives, if not cleared by income received within two years following release, will be charged to Profit and Loss.

The accounting practice in this company has been to credit the net income received from the distributor directly to the Finished Negative account. If a debit balance remains, it is set up on the Balance Sheet as the residual value of the negatives in question. If a credit balance appears as a result of the above procedure, there is a profit on the negative, and this balance

should be transferred to Profit and Loss. Obviously, the negative in this illustration has been cleared and written down to zero.

An illustration of the above will make the procedure clearer to the reader:

Negative cost to Producer	\$25,000.00
---------------------------	-------------

Distributor Reports:

Gross Income	\$60,000.00
--------------	-------------

Charges to Producer	\$15,000.00
---------------------	-------------

Producer's Share	\$22,500.00
------------------	-------------

The Producer's negative account will appear as below (assuming the charges have been capitalized as part of the negative cost):

Cost of negative	\$25,000.00
------------------	-------------

Charges	<u>15,000.00</u>
---------	------------------

Total Cost	40,000.00
------------	-----------

, Producer's Share of gross	<u>22,500.00</u>
-----------------------------	------------------

Residual value of negative	\$17,500 .00
----------------------------	--------------

The succeeding month the distributor makes the following report:

Gross Income	\$120,000.00
--------------	--------------

Charges	3,000.00
---------	----------

Producer's Share	31,500.00
------------------	-----------

The accounts will appear as follows:

Residual Value per last report	\$17,500.00	
Charges	<u>3,000.00</u>	\$20,500.00
Producer's Share		<u>31,500.00</u>
*Profit on negative		11,000.00

* The negative has been written down to zero and will not appear in the Balance Sheet.

With the increase in foreign business some companies such as Paramount Publix have assigned part of their cost to foreign business, and write it off against such income. This is not true of the entire industry, as evidenced by Columbia Pictures Corp. in their prospectus issued April, 1930, in which they state that no portion of the cost is charged against foreign business.*

Some of the companies have established foreign studios, and this may help towards uniformity in this respect.

The practice of charging positive prints varies. Some companies include them in their Finished Negative account and write them off over the same life; other companies separate the accounts and write off over a shorter life; these prints do not last through the earning life of the negative unless the picture is not a box office hit.

* Columbia Pictures Corporation Prospectus, April, 1930.

I believe the best practice is to write off the first set of prints over the life of the negative, including them in the same account and charging all replacements to an Operating Expense account.*

In some cases estimates as to film exhaustion are far from correct, due to the drawing power of the film and other considerations which may hinder the estimated gross income from being realized. If the picture is a great success, the negative cost may quickly clear, leaving the producer with a valuable asset not reflected in his Balance Sheet.** In other instances the film may prove to be a failure, in which case the producer should set up a reserve for loss, based upon his experience tables.

Entries necessary to record film exhaustion upon the books are as follows:

Film Exhaustion \$-----

Finished Negatives \$-----

The amount amortized is posted directly to the respective film account in the Finished Negative ledger.

* R. H. Montgomery--Auditing Theory and Practice--Volume 2

** Fleischer Studios

A producer's Profit and Loss statement will usually appear as follows:

<u>Gross Income</u>	\$----
Less Distributor's Share	----
<u>Gross Income Received</u>	----
Film Exhaustion	----
<u>Net Income from Released Productions</u>	\$----

In the cases where all income is charged against costs, the Profit and Loss Statement can be drawn up in the usual manner, although this requires a great deal of detailed work.

A separate subsidiary ledger containing the finished negatives should be included in the accounting system. This enables interested parties to ascertain the cost and the gross and net income on each individual negative produced and released for exploitation. This book should have, besides the usual cost columns, columns showing the amount of film exhaustion to date, and also memorandum columns recording the gross income and the distributor's share. The Trial Balance of this ledger should be in agreement with the Finished Negative controlling account.

The writer has a few more words to say relative to the accounts of producers of the "squeakin' tintypes." Producers usually receive advances on negatives to be released by distributors. Some producers consider this advance as current income. Legally, according to their contract, they are correct in this contention; however, it is not considered good accounting practice to consider any unearned advances available for dividends. Advances should be credited to income only as they are earned, and in the periods that they are reported earned by the distributor. An illustration of the above will be clearer to the reader:

The distributor advances \$5000.00. In the first period following release he reports the producer's share of gross film rentals as \$4000.00. The producer picks this income up on his books as follows:

Advance Deposits	\$4000.00
------------------	-----------

Income	\$4000.00
--------	-----------

This above entry would have the effect of leaving a balance of \$1000.00 in the Advance Deposit account and would show a gross income of \$4000.00. If in the next period the distributor reports the

producer's share of gross film rentals as \$3000.00, the producer would have the following entry to bring on his books:

Cash (from distributor) \$2000.00

Advance Deposits 1000.00

Income \$3000.00

The advance has all been earned as shown by the above cash (\$2000.00) received from the distributor. Obviously, when the exploitation contract has expired through lapse of time, any unearned advance may then be considered available for dividends; in this instance, however, it should be credited against the cost of the negative, which usually has not been amortized fully. The distributor in this situation is not entitled to a refund legally, even though the advance has not been cleared by the income received from its exploitation. This is one of the peculiarities of the industry, and the above situation is always read into all exploitation contracts between producers and distributors. The negative in this case will usually be a box office "flop." Procedure for writing off the unearned advance is as follows:

Advance Deposits \$-----

Income or Finished Negatives \$-----

(for the unearned advance)

If there is a debit balance left in the Negative account, it should be transferred to Profit and Loss as a loss, and vice versa if a credit balance. The cost of pictures which are produced and then "shelved" should be charged off to income immediately.

All salient features relative to production and exhaustion of film having been covered, we will now proceed to the accounting methods peculiar to motion picture distributors.

Accounting Methods of Motion Picture Distributors

The second phase of the film industry is obviously to sell the picture. This is the task that the distributor undertakes.

Distributors may or may not be allied with the producer. If they are not allied, they are classed as "state righters,"--that is, they buy the distribution rights for certain named states or territories. They may buy either outright or on a percentage basis, which may include an advance.

Distributing corporations may be nationally organized, or they may have only a few exchanges. The large producing companies have their own distributing outlets, such as the "Vitagraph Exchange" for Warners, "Fox Film Exchange" for Fox, etc. Some well-known "state righters" are "Educational Film Ex.," "Red Seal," etc.

The home offices of all the distributing companies are located in New York City. Subsidiary film exchanges are strategically located in all key cities of the world. These exchanges may be incorporated in the states in which they are located.

Distributors usually contract for the ex-

exploitation and sale of film about a year in advance of play dates and booking. Contracts with producers are signed for the exploitation of their product, then the salesmen for these selling companies are introduced to the sales program for the coming year by means of a national convention.

The accounting features to be considered are as follows:

1. The correct royalty due producers on film exploited for them.
2. The profit and loss on the subsidiary exchanges.
3. Selling cost of salesmen based on business written.
4. Profit on negatives exploited is desired.

1. Royalties Due Producers

This is one of the most important features to be discussed in film exchange accounting. Distributors are liable for an accounting on royalties for income collected on pictures under exploitation. Royalties may vary on pictures and in the territory in which the picture is sold, which of course depends on the exploitation contract. It is thus obvious that a very complex and intricate system

from all sources to the proper picture account.
 This is done through a subsidiary income book.
 This book is laid out as below:

Boston Film Collections.						
Month Ending JUNE 29						
Production	JUNE 1	JUNE 8	JUNE 15	JUNE 22	JUNE 29	TOTALS
45	10-		18-	20-	100-	148-
46		4-				4-
47	2-	30-	2-	50-		84-
48	4		25-		30-	59-
50						
TOTALS	16-	34-	45-	70-	130	295-

At the end of a month or period the income from each exchange is footed and transferred to a summary sheet outlined as below:

Summary of Film Collections						
Month Ending JUNE 29						
Exchange	Prod 45	Prod 46	Prod 47	Prod 48	TOTALS	
New York						
Boston	148-	4-	84-	59-	295-	
Chicago						
PHILA						
TOTALS	148-	4-	84-	59-	295-	

The following table shows the results of the experiment
 conducted on the 10th of June 1900.
 The results are given in the following table.

Table 1				
Time	Temperature	Pressure	Volume	Weight
10.00	20.0	760.0	100.0	10.0
10.10	20.5	760.5	100.5	10.5
10.20	21.0	761.0	101.0	11.0
10.30	21.5	761.5	101.5	11.5
10.40	22.0	762.0	102.0	12.0

Time	Temperature	Pressure	Volume	Weight
10.50	22.5	762.5	102.5	12.5
11.00	23.0	763.0	103.0	13.0

The results of the experiment show that the temperature
 and pressure increase with time, and the volume and weight
 also increase. The results are given in the following table.

Table 2				
Time	Temperature	Pressure	Volume	Weight
11.10	23.5	763.5	103.5	13.5
11.20	24.0	764.0	104.0	14.0
11.30	24.5	764.5	104.5	14.5
11.40	25.0	765.0	105.0	15.0

Time	Temperature	Pressure	Volume	Weight
11.50	25.5	765.5	105.5	15.5
12.00	26.0	766.0	106.0	16.0

This summary sheet is now footed up, and the income transferred to a royalty statement, one for each picture exploited. A form of royalty statement is shown on the following sheet.

Royalty Statement	
Picture No. 1	
Picture No. 2	
Picture No. 3	
Picture No. 4	
Picture No. 5	
Picture No. 6	
Picture No. 7	
Picture No. 8	
Picture No. 9	
Picture No. 10	
Picture No. 11	
Picture No. 12	
Picture No. 13	
Picture No. 14	
Picture No. 15	
Picture No. 16	
Picture No. 17	
Picture No. 18	
Picture No. 19	
Picture No. 20	
Picture No. 21	
Picture No. 22	
Picture No. 23	
Picture No. 24	
Picture No. 25	
Picture No. 26	
Picture No. 27	
Picture No. 28	
Picture No. 29	
Picture No. 30	
Picture No. 31	
Picture No. 32	
Picture No. 33	
Picture No. 34	
Picture No. 35	
Picture No. 36	
Picture No. 37	
Picture No. 38	
Picture No. 39	
Picture No. 40	
Picture No. 41	
Picture No. 42	
Picture No. 43	
Picture No. 44	
Picture No. 45	
Picture No. 46	
Picture No. 47	
Picture No. 48	
Picture No. 49	
Picture No. 50	
Picture No. 51	
Picture No. 52	
Picture No. 53	
Picture No. 54	
Picture No. 55	
Picture No. 56	
Picture No. 57	
Picture No. 58	
Picture No. 59	
Picture No. 60	
Picture No. 61	
Picture No. 62	
Picture No. 63	
Picture No. 64	
Picture No. 65	
Picture No. 66	
Picture No. 67	
Picture No. 68	
Picture No. 69	
Picture No. 70	
Picture No. 71	
Picture No. 72	
Picture No. 73	
Picture No. 74	
Picture No. 75	
Picture No. 76	
Picture No. 77	
Picture No. 78	
Picture No. 79	
Picture No. 80	
Picture No. 81	
Picture No. 82	
Picture No. 83	
Picture No. 84	
Picture No. 85	
Picture No. 86	
Picture No. 87	
Picture No. 88	
Picture No. 89	
Picture No. 90	
Picture No. 91	
Picture No. 92	
Picture No. 93	
Picture No. 94	
Picture No. 95	
Picture No. 96	
Picture No. 97	
Picture No. 98	
Picture No. 99	
Picture No. 100	

Royalty Statement

Fables Pictures Corp

Title 47 "gold"

Period June 29

Producer John Doe

Gross Income:

Boston	148 ⁰⁰
New York	152 -
Chicago	- -
	<u>300⁰⁰</u>

Producers Share:

50% = \$150⁰⁰

Prints:

2 - Boston - \$200⁰⁰

Charges:

Producers Dr. Bal. from
Cinema Fee - Boston \$10⁰⁰

Recap:

Gross Income	300 ⁰⁰
Producer Share	150 ⁰⁰
Charges	210 ⁰⁰
Due Producer	—
Due Fables P.C.	\$60 ⁰⁰

	Gross Income	Producer Share	Charges	Remitted to Producer
Previously Reported	\$15000 ⁰⁰	7500 ⁰⁰	6500 ⁰⁰	1000 ⁰⁰
This Report	300 ⁰⁰	150 ⁰⁰	210 ⁰⁰	—
Total to Date	\$15300 ⁰⁰	\$7650 ⁰⁰	\$6710	\$1000 ⁰⁰

Journal entries are now in order to properly record the liability due the producer on account of royalties:

Producers Share \$-----

Advances to Producers \$-----

(individual films)

This indicates the producer's share of the gross income collected for the period under review. Payment of cash to the producer is recorded as follows:

Advances to Producers \$-----

(individual films)

Cash \$-----

It should be understood that the producer has no debit balance against his film. If he has, he will receive no cash until this debit balance has been recouped through his share of the gross. The only entry to be made in this situation is the first one, crediting the picture for the proportionate share of the gross income due it. A form of page from the Advances to Producer ledger will clear up any difficulties.

Advances to Producers Ledger

Right Hand Page

Producer John Doe			Main Title - "Gold"				
Date	Particulars	F.	R.	Ints	Charges	Advances	Total Charge
1930							
June 5	2- Prints Boston	Vo.	40	200 ⁰⁰			
6	Levan Fees 4	Vo.	40		10 ⁰⁰		210 -
30	Producer Share	J.	10				

Left Hand Page

Release Date			Prod. No. 47			
Producers SHARE	Other Credits	Total Credits	Producer Dr.	Balance cr.	Gross INCOME	
150 -		150 -	60 -		300 -	

The gross income column may be a "memo" column, the amount being taken from the summary sheets each period, and inserted for statistical purposes. These sheets should be in agreement with the royalty statements rendered to the producers. All charges on producer's statements are taken from this book and posted to the royalty statements as they are drawn up. The charges to the producer usually come from the Voucher Register or Purchase Book.

The account "Advances to Producers" is usually a large asset as shown by the Balance Sheets of the

following companies (12/31/28):

	<u>Per cent of Receivables</u>
Paramount Publix	45%
Warner Bros.	3 $\frac{1}{2}$ %

Ordinarily, the account is recouped out of the producer's share of the gross income collected. The producer's share is usually about 50-70% until the advance is cleared. After the advance and charges have been cleared the usual practice is to divide the income equally. If the picture is a success, the advance will be quickly cleared due to applying the producer's share against the unrecouped balance of the advance, for example:

Advance to Producer	\$2000
Charges to Producer	700

Gross Income Collected \$4000 (Producer's Share \$2600)

The accounts on the distributor's books will be as follows:

Producer's Share	\$2600.00
Advances	<u>2700.00</u>

Debit balance due Distributor \$100.00

After this remaining \$100.00 has been cleared the "split" reverts to a lower percentage based on the contract. If the picture looks like a failure, the distributor may have to set up a reserve to

cover up the loss he may incur against his advance. Sometimes a picture may earn 40% of its potential income while only 30% of the advance has been recouped. This is usually due to large expenses incurred by the distributor in exploiting the film. In this case the distributor should set up a reserve of 10% to cover the potential loss.

Recording of Income on the General Books:

The home office must now record in its general records the income reported each week from its branch exchanges. A check is drawn on the exchange for the income collected, and the accounts receivable for that particular exchange is credited for the same amount. At the end of the period, a journal entry is made debiting Accounts Receivable and crediting Income for the amount of billings of film in the exchange during the period. The total of the income credited must be in agreement with the totals in the subsidiary income book.

The subsidiary exchange usually has two cash accounts,-- one for income collected, which is only drawn upon by the home office weekly or monthly; and one, in charge of the branch manager, for the branch offices immediate expenses of operations. Weekly or monthly the branch renders an expense

statement to the home office, and the home office in turn reimburses the branch for the expenses reported and charges them to the individual branch expense account. This procedure occurs when the branch does not carry a complete set of books, but carries only a cash book and receivable ledger.

2. Profit or Loss on each Film Exchange

The profit or loss is derived as follows:

Gross Income Reported by the Exchange \$-----

Less Expenses of Operations:

Direct Expenses \$---

Producer's Share of Income

% of Home office Adm. Ex. _____

Profit or Loss on Branch Operations \$-----

3. Selling cost of Film Salesmen, and Sales Control

A subsidiary record is kept covering the film salesmen. Included in it are sheets for each salesman employed by the company. These sheets record the salesman's salary and expenses, and his sales of film to exhibitors. His selling cost is found by dividing his expenses by his contract business, and should not be above the selling costs that the General Sales Manager has set. If the costs are above, it indicates that the salesman is not diligent, or that he is encountering sales resistance. These figures are very important to the sales

manager.

An analysis of contract business, played business, and unplayed business is usually recorded for the General Sales Manager. This analysis must be kept up to date in order to have effective sales control. When contracts reach the home office for approval, they are approved by the General Sales Manager or his assistants. After approval, the contract is transferred to a clerk who analyzes the contracts into the types or series which it covers. Reports as to played business in the exchanges are received weekly by the home office. The contract clerk will take this played business report and analyze it as to series. After this procedure has been completed, the played business will be deducted from the contracts written, and the resulting balance is unplayed business on hand in the exchanges. The contracts in all cases are analyzed as to the exchanges on which they were written. An illustration of the above procedure will make it clearer:

The Boston exchange sends contracts to the home office amounting to \$50,000. The contracts are analyzed as follows:

<u>Total Contracts</u>	:	<u>Clara Wings</u> :	<u>John Gilbert</u> :	<u>Mary Jones</u>
<u>Written</u>	:	:	:	:
50,000 ⁰⁰	:	20,000 ⁰⁰	20,000 ⁰⁰	10,000 ⁰⁰

The weekly report of played business from the Boston exchange shows the following:

<u>Played Business:</u>	<u>Clara Wings:</u>	<u>John Gilbert:</u>	<u>Mary Jones</u>
\$10,000	\$1000	\$8000	\$1000

The Unplayed Business relative to the Boston exchange on file in the home office will be shown up as follows:

	<u>Total:</u>	<u>Clara Wings:</u>	<u>John Gilbert:</u>	<u>Mary Jones:</u>
<u>Total Contracts</u>	50,000	20,000	20,000	10,000
<u>Written</u>				
<u>Played</u>	10,000	1,000	8,000	1,000
<u>Unplayed</u>	40,000	19,000	12,000	9,000

The above procedure will be carried out on all film exchanges and will be further summarized to include the country.

4. Profit on negatives exploited

From the gross income of each production, deduct the producer's share plus a proportionate part of the cost of distribution, leaving the balance, if any, as the resulting profit on the negative exploited.

If the film exchange keeps a full set of books, the home office will not bring on the income from the exchange monthly or draw a check to reimburse

the branch for its expenses weekly. They will record the summary of rentals collected, as reported by the exchanges weekly, in the subsidiary income book. The home office will take up the branch net profit, at the end of each profit-finding period, as reported by the branch. They may draw upon the branch cash as before, but the entry to cover this feature is to debit cash, and credit the respective branch for the amount drawn, and vice versa for all cash advanced. When preparing a consolidated balance sheet at the end of the period, all inter-company accounts will be eliminated in the usual manner. The branch will handle all withdrawals and receipts of cash from the home office in just the opposite manner. The home office records the summary of income from film rentals weekly in order to render a royalty statement to the producers.

Miscellaneous items appearing in Distributor

Accounting Procedure

A. When film appears to be a "flop"

If, after the exploiting, contract has lapsed through time, and a debit balance remains in the negative account, there is only one method to follow, and that is to charge off the balance as a

loss, as it cannot be recovered from the producer. Losses on one negative exploited cannot be offset against gains from other negatives of the same producer.

B. Income from "State Righters"

If the picture is leased by the distributor to a "state right" exchange, instead of branch expenses the "state righter" will charge a certain commission for the "physical distribution" of the negative. This expense is not chargeable back against the producer's share but is part of the distributor's selling expense.

C. When charges are deducted from gross income

Exploitation contracts are sometimes drawn to read that all distribution charges, such as print cost, censor fees, etc., shall be deducted from the gross film income of the "vehicle" being exploited, before the producer shall share in the net. This provision is not advantageous to the distributor, for in this situation he has to stand part of the charges in proportion to his share of the income. Previously, all charges were handled as a deduction from the net income due the producer, or the producer's share of gross film rentals; thus the producer paid all the charges.

The situation in this case is more complex; to illustrate, a concrete example is shown:

Gross income	\$100.00
--------------	----------

Charges	20.00
---------	-------

Producer's base share	60%
-----------------------	-----

Case 1. Producer pays all charges

Gross income	\$100.00
--------------	----------

Producer's share	\$60.00
------------------	---------

Less charges	<u>20.00</u>
--------------	--------------

Net to producer	\$40.00
-----------------	---------

Case 2. Charges are deducted from gross

Gross income	\$100.00
--------------	----------

Charges	<u>20.00</u>	\$80.00
---------	--------------	---------

Producer's share	60%	\$48.00
------------------	-----	---------

It will be seen from the above illustration that the producer gains if his contract is worded as in Case 2 above. He gains \$8.00 in the above case, for he is obliged to pay only 60% of the charges, and the distributor pays 40%.

In the above case, the distributor should not capitalize the proportion of charges he has to pay. It is merely an additional expense or producer's share which the distributor has to stand sometimes, for the privilege of securing an exploitation contract. It is true that the

positive prints represented in the charges belong to the "distrib" in the above case, but they are not worth more than their scrap value.

There are a few more items to be discussed before proceeding to the auditing procedure of film exchanges. These items are prints and advertising matter sent to the film exchanges.

Perpetual inventories should be kept of all prints and advertising matter sent to the exchanges. When prints or show copies are sent to branches for release to exhibitors, a record should be made; if the branch subsequently transfers or returns the film, it should be properly recorded in the home office perpetual inventory records. These records are of the utmost importance, for they are the basis of audits made on the exchanges.

Advertising matter sent to the exchanges should be handled in the same manner. In this advertising department, opportunities for illegal and unauthorized profit-sharing may creep in unless there is a good system of internal checking. Periodically the exchange remits a report with duplicate numbered invoices of advertising matter sold. All accessories sold should be checked against the perpetual inventory records, and the

balance of accessories shown by the inventory records should be in agreement with a physical inventory count on hand in the exchange (theoretically). The total sales of advertising matter as reported by the branch should be in agreement with the total of the duplicate numbered invoices returned to the home office for checking.

If the auditor of a film exchange takes all the above procedure into consideration when making an audit, he should not encounter any unusual difficulties during an audit. There may be minor deviations in procedure in different organizations but the systems and fundamentals are the same in all the large producing and distributing companies.

Accounting System of Distributors

The main books comprising the accounting system are as follows:

Cash Books

Paid and Received

Voucher Register

Journal

General Ledger

Advances to Producers Ledger

Branch Office Ledger

This book is a record drawn up to record receipts of cash. Columns should be provided as follows:

General Ledger Column for Miscellaneous
items

When cash is received, it is entered in the proper columns and distributed as to its source. A form of cash book is drawn up below.

[illegible]

Cash Paid

This book is a record of all disbursements made by check. A form is given below.

[illegible]

Voucher Register

This book covers the original entry of all expenses and purchases made by the distributor. A form is exhibited on the following page.

[illegible]

Journal

PROD. Share	A/cct. Payable	Gen.	F.		Gen.	A/cct. Rec.	Adv. Prod.
				June 30, 1930			
150 ⁰⁰			JV P	Producers Share			
			P	Adv. to Producer			150 ⁰⁰
				Producers share of			
				gross film income			
				for June			
				Paid 47- 150 ⁰⁰ ✓			

Advances to Producer's Ledger

This ledger has been explained elsewhere in this paper.

Accounts Receivable Ledger

This book usually contains the control accounts of the subsidiary film exchanges, if these exchanges do not keep a full system. Other accounts receivable arising from the sale of film (foreign and otherwise) may appear in this ledger. The charges to this account come from the journal, when the home office brings the respective totals of branch billings on the books. Credits to this account come from the cash book for cash received on account of billings. The Accounts Receivable of each exchange are of course separated. Billings made by "state righters" on account of pictures leased to them are not brought on the books until actually collected, and then the amount collected is posted directly to the Income from Rentals column, in the Cash Received book. The reason for this is the fact that the smaller exhibitors are financially irresponsible, and there would be no advantage in bringing these amounts on the books, as in many instances they

cannot be collected.* The commission received by the "state righter" for handling the physical distribution of film is based on collections, and deducted from the cash remitted to the home office (see Cash Receipts book).

Branch Office Ledger

Subsidiary records are kept to record the analysis of the branch expenses. The totals of this subsidiary record should be in agreement with its controlling account in the General Ledger. Expenses of each branch are separated in this record.

Auditing Royalty Accounts of Distributors

In the exploitation contracts between producers and distributors, clauses are sometimes read into the contracts giving the producer the right to make an audit of the distributing company's books to ascertain that all income and charges have been correctly reported. In verifying income, the auditor should be furnished with copies of the producer's royalty statements for the period under audit. The auditor should check these statements against the reports of played business as rendered by the subsidiary film

* R. H. Montgomery--Auditing Theory and Practice--Volume 2.

exchanges. After he has completed his check in this respect, he should check the reports of played business to the Income account on the distributor's books. The totals of the played business reports should be in agreement with the Income account, if the distributor reports royalties on a cash collected basis; if the distributor does not report on a cash collected basis, but on a billing basis, the royalty statements should be checked against the duplicate billing invoices as turned in to the home office, by the subsidiary exchanges.

It sometimes happens that exhibitors, in order to avoid playing out a contract settle it by paying a lump sum, usually below the contracted amount. The auditor should ascertain that, if any films in which he is auditing has been settled on such a basis, it was properly reported as a royalty to the producer. As a further check on income, the auditor should test the total contracts, written on his producer's negatives, against the unplayed business as reported by the distributor. The resulting balance should be the billings or cash collected by the distributor and reported in the royalty statements.

Distribution Charges to Producers

The auditor should be furnished with a list of all items charged to the producer. He should verify these charges on the distributor's books by checking the paid invoices for these charges. It often happens that charges are padded by distributors, and can be detected only by a careful analysis of paid invoices and cancelled checks covering these paid invoices.

Part of the books and records peculiar to film exchanges will be explained below in order to have the remainder of this paper understood by the reader.

A. Booking record

This book records the dates on which different films will be played, and the theatres where they will be shown. A form is shown below:

Prints Available	JUNE 1930							
	PLAY DATES							
	1	2	3	4	5	6	29	30

The reader can notice from the above form that all films are entered in the respective play date columns, with

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indication also of the theatre in which they will be exhibited. This book forms the basis for the billing system and shipping records. Bills are made out from this record and sent out usually one or two weeks in advance of play dates.

B. Shipping sheets

These sheets are very important, as the auditor uses them in checking income. A shipping sheet is made out each day in the week and on it are columns to record the film, playdate, name of exhibitor, date shipped, and date returned.

Shipping Sheet				
Day	Print Shipped	Exhibitor	Play Date	Shipped
Returned				

Data for the shipping sheets come from the cut off or booking records, and these sheets are usually drawn up a week in advance of play dates.

C. Vault Cards

A card is made up for each print received from the home office. This card has columns providing for the exhibitor's name, play date, and date shipped and returned. Every time the print is shipped to an exhibitor, a statement of the fact must be recorded on this vault card. This card serves as a check on the shipping

The pictures to be played are entered in the proper columns, and the contract price is also recorded from the contract. Whenever a film is booked by the exhibitor, its play date is entered in its proper column, as shown in the fore-going diagram. This form serves as a check on all contracts, as well as showing whether the exhibitor is performing his part of the agreement.

E. Booker

This is the title given to the person who has charge of the shipping records. The position is an important one, and carries a fairly good rate of remuneration. The booker should not have access to the film or shipping records, for in some cases he may be the cashier and bookkeeper as well; thus it is important to keep the shipping records from getting under his control.

The booker may also do the billing, but in all the large exchanges there are separate billers. The basis for the billing is usually from the booking records. Bills should be made out in triplicate,--one for the exhibitor, one for permanent records, and one to be sent to the home office for record.

The bills are posted from the duplicates, which are kept in a loose leaf binder, to the Accounts Receivable ledger. Each week the total of billings is reported to the home office. If the film exchange keeps a

complete set of books, the entry to record the billings is to debit Acct. Receivable and credit Income from Rentals. If a complete set of books is not kept, the home office will pick up the entry,--a procedure which has been previously outlined in this paper.

Auditing Procedure in Film Exchanges

An auditor seems to be persona non grata in the film business, more so than in any other line of endeavor in which the writer has ever been engaged. I believe that the element of surprise is a great feature that auditors should take advantage of when contemplating an audit of a film exchange. Auditors may be engaged by dissatisfied producers or distributors either to check up in a case when they have good reasons to believe that the exchange is "holding out" on them in the gross film rentals reported, or in the case of a subsidiary film exchange, to check up on the personnel. In either case the auditing procedure is the same.

The most important points of procedure handled in this class of audit is as follows:

1. To see that all income is reported and accounted for.
2. Accounting for accessory sales.
3. Vouching of check and currency disbursements.
4. Enforcements of contracts or steps taken to effect a settlement of contracts.

Procedure in 1.

The auditor is furnished with an inventory of

prints that should be in the film exchange. A physical inventory of prints should be taken immediately,--that is, as soon as possible after entering the exchange. The difference between this physical inventory and the inventory furnished him by the home office should be prints that are being exhibited or prints in theatres. The auditor should then check these missing prints to the shipping sheets to find out if they are out with exhibitors. If this check is satisfactory, he next checks these prints into the exhibitor's accounts in order to find out if they have been billed to the exhibitor. Thus we have a system of check and double check. At this point of procedure the auditor's opportunity comes in. He should be able to see if prints are shipped and not billed, and thus unearth any damage to the company. It often happens that films are given gratis to exhibitors. The auditor should be able to check up on this point by following the above procedure for several months previous.

The auditor should make tests of all shipping sheets by checking them back against the exhibitor's accounts for a certain period, which, of course, is governed by the system of internal check. After

the auditor has satisfied himself that all shipments have been satisfactorily handled, he should proceed to the analysis of the customer's accounts, ageing them, etc., and taking up all overdue accounts with the exchange manager. It may be necessary for him to confirm any questionable accounts. Credits from the cash book to the customer's accounts should be tested in order to guard against any "lapping" which may have occurred. Another item advisable to test is the prices received from exhibitors. The auditor should have the copies of exhibitors contracts before him, and compare the contract prices with the actual cash received, as shown by the exhibitor's account in the ledger. This may show whether exhibitors are paying contract prices, or whether the manager of the exchange is lax in his method of allowing them to pay less than their stipulated contract price. The auditor may find something interesting to include in his report from the result of the above audit work.

Another point of caution is suggested in accounting for all income that should have been reported and this is "Spot Bookings." A "spot booking" is one that occurs when an exhibitor needs a

print in a hurry and one that is usually not under contract. The exhibitor usually takes this film out immediately, and the above transaction may not even appear on the shipping records. The method that the writer suggests to guard against any misappropriation of cash from this source, is a test of the Vault Cards (explained before) against the shipping records for a definite period. Any shipment which appears on a Vault Card and not on the proper shipping sheet should be investigated to the "nth" degree, for herein lies a most lucrative source of embezzlement. It should now be obvious to the reader why the booker should not have access to the shipping records of vault cards.

Step 2. Accessory Income

A perpetual inventory is kept on the accessory and advertising matter both at the home office and in the exchange. The auditor is furnished with a list of this matter that should be on hand at the close of the audit period. He should immediately verify the list by taking a physical inventory of this advertising matter immediately after he has completed his physical inventory of prints. An internal check should be kept on accessory sales. Pads, in numerical order and in triplicate, should

be used to record accessory sales. When such a sale occurs the clerk makes out the invoice on this pad, recording the exhibitor's name, and the amount and classification of the accessories sold. The exhibitor receipts the invoice and keeps the original copy. One copy should be sent to the home office, and one copy kept in the exchange for the auditor's use. Usually the accessories are paid for immediately; in this case the clerk stamps the invoice as paid. Periodically all accessory sales slips are sent to the home office where they are handled in the manner outlined before in this paper. The home office should investigate any missing numbers. From the above practice it will be clear that an effective internal check is kept on accessory sales in the film exchanges. Any material differences between the physical inventory and the perpetual one should be investigated, as the clerks in the accessory department will share profits with the company if not checked.

Step 3. Vouching of Disbursements

The vouching of disbursements by check and currency is a comparatively simple matter. The auditor should check the payments by checks and

currency against the respective bills received from creditors. In some instances this procedure will not be necessary, for the home office may check and vouch all expenses whenever they reimburse the branch for these expenses. In this case the branch will turn over all bills to the home office for vouching. The auditor should satisfy himself that there are no "fake" bills paid. This he can do by direct correspondence with the creditors. A point of caution is advisable at this time; invoices are sometimes paid by the exchange which are chargeable back to the producer of the picture being exploited. The auditor should be careful to closely scrutinize all bills for any items of such a nature. These items may comprise cleaning and processing prints, replacements, titles, censor fees, etc.; in some cases the above items run into a considerable sum of money, and should be carefully checked in order that they may be charged to the proper persons, if for no other reasons.

The auditor should also use his common sense and judgment to find out if all expenses paid have been necessary to carry on the business. It often happens that people have been kept on payrolls at

the exchanges, and expenses incurred on account of them which are grossly out of proportion to the amount of business done. The auditor can check up on the above points if he keeps his eyes and ears open while on the job at the exchange. He also should refrain from making close acquaintance with the personnel, and from accepting any favors, as this may hurt his position. On the contrary, he should not be offensively aloof, but he should rather establish a happy medium. In this way he will be able better to accomplish his purpose.

Step 4. Enforcement of Contracts

The enforcement of contracts is a very important item, and is a delicate affair to handle. Many times an exhibitor over-buys or over-pays on a contract sold to him under pressure by one of the high powered "7th Ave. film salesmen." After the "exhib" comes down to earth again, he realizes he cannot live up to the terms of the contract. From such cases arises much of the unplayed business on hand in the exchange. The manager of the film exchange may try to force the exhibitor to carry out the contract by bringing him before the Film Board of Trade, an organization which corresponds to the Supreme Court, although the members of this board

disclaim any such comparison. This board is composed of an even number of distributors and exhibitors who hear the case and then render their decision. If the decision is in favor of the "distrib," the exhibitor must live up to the contract or he is refused service by the members of the Film Board of Trade, in which case the exhibitor might as well shut up the house, for he will have nothing to exhibit. It is obvious that this (Hays) organization is a very efficient method of enforcing delinquent customers to live up to their obligations.* On the other side of the fence the wary exhibitor may purge himself of all burdening contracts by selling out his interest in the theatre to a "straw," an action which makes all existing contracts null and void. This is the situation that anyone connected with the distributing end of the "leaping tintype" industry has to handle with care. The auditor should bear this in mind when perusing unplayed business. He should see that unplayed business on hand represents bona fide contracts. One good feature of distributor accounting procedure is that it does not anticipate future profits

* Federal Court decision has recently (1930) ruled that compulsory arbitration is illegal and in restraint of trade.

by including unplayed business in the income.

This is shown by one of the large companies in a prospectus issued in 1930 which reads as follows:

"The corporation derives its income from the sale of the exhibition rights of its productions to exhibitors through its domestic branch, exchanges, etc. Contracts for the exhibition of productions are not carried on the Balance Sheet as Accounts Receivable until delivery has been made. Advance payments from exhibitors are carried as deferred income until delivery of prints is made. Never-the-less, substantial promotion and selling expense incident to the new business are charged to current operations as soon as they are incurred. At the present time the Corporation has contracts outstanding with exhibitors in the United States amounting to \$6,500,000, and with foreign franchise holders amounting to \$1,000,000, and the amount of the receivables as shown on the Balance Sheet is less than \$500,000. The selling cost of obtaining these contracts has already been charged against operations.* "

* Columbia Pictures Corp. Prospectus, April, 1930.

The above accounting procedure is representative of the entire industry as connected with unplayed business.

The auditor should make sure that all contracts are bona fide. Instances are known where contracts were forged in order to make sales appear more favorable. In all suspicious cases the contracts should be confirmed by the auditor. Today most of the exhibitors have been submerged by the national outfits in their merging and buying up theatres, and this feature of auditing is not as antagonizing as before.

A recent innovation in the distributing end of the film industry is "percentage booking." This feature refers to the leasing of film to exhibitors on a fixed guarantee plus a percentage of the box office receipts, over and above a fixed amount taken in by the exhibitor. This has resulted in bad practices such as "bicycling of film" and "gypping". Exhibitors have been keeping two sets of books in order to gyp the distributor on his percentage of "overs"; they also sometimes keep the film longer than the contract called for in order to cover up the guarantee. In order to

stop this evil practice, some of the larger distributing firms have had to resort to the retaining of national auditing companies, and the hiring of detectives or "spotters." This has increased the expense of distribution, and no practicable inexpensive solution of the problem has as yet been reached. The film organizations will not revert to their one price policy, as this is as passé as the silent film. Paramount-Publix has tried to solve the problem by **selling** only to bonded houses. This may be the ultimate way out of the mess created by this percentage booking factor.

The writer has suggested a system whereby the local film boards of trade will issue fool-proof tickets for use at the box offices of local exhibitors. These tickets should be of a kind very difficult and expensive to reproduce in counterfeit. In issuing these tickets, the local film boards of trade should note the serial numbers, and notify the local distributor of these numbers. Also the film board of trade can hire one or two "spotters" to make purchases of tickets in the various theatres, and then bring back the tickets to the offices of the board in order to detect if any are of counterfeit nature. This is an inex-

pensive yet effective method of checking up on exhibitors.

Another source of income received from exhibitors are "score charges." These charges arose with the "sound on film and disc" methods of reproducing talking pictures. A small charge is made by the film exchange for talking pictures sold to exhibitors .

Verification of amounts received by exchanges on account of score charges are comparatively simple. All films released "sound on disc" usually carry a score charge in addition to the rental, and this amount can be verified at the same time as the rentals received are being tested against the individual exhibition contracts.

All items of importance relative to film accounting have been discussed in this paper. In conclusion the author wishes to state that the procedure should not be taken ipso facto as the ne ultra plus in film accounting methods, but should be considered merely as a guide to the uninitiated to intelligently understand the accounts of motion picture producers and distributors, which is the sine qua non of this paper.

FINANCIAL ANALYSIS

Financial Analysis

An analysis of three major producing and distributing companies will be made. The companies analyzed are as follows:

Paramount Famous Lasky Corp.

Fox Film Corp.

Warner Bros. Pictures, Inc.

The points of analysis worked out are as follows:

Capital Structure

Relation of Charges and Preferred Dividend

Requirements to Net Income and the Factor of
Safety

Earnings per Share of Common Stock

Ratio of Total Income to Total Investment

Earnings to Common Stock and Surplus

Current Ratio

Earnings, Book Value, Dividends, and Average

Prices of Common Stocks

Conclusion:

The writer's conclusion

Moody's Ratings

Capital Structure

Included under this caption are all bonds outstanding, preferred stocks, common stocks, surplus and other

proprietorship reserves. The total investment of
 a corporation, as carried on the books of the
 company, is represented by the sum of all these
 items. Accounts and notes payable are not regarded
 as an investment, but as merely a temporary con-
 venience of doing business on a credit basis.*
 By reference to the published statements of Para-
 mount Famous Lasky Corp., December 31, 1929; Fox
 Film Corp., December 31, 1929; and Warner Bros.
 Picture Corp., August 31, 1929, we observe the
 following facts:

	Paramount	Fox Film	Warner
<u>Book Investment</u>	<u>Publix</u>		<u>Bros.</u>
Bonded Mtg. & Debt:	79,130*	27,202*	70,023*
Subsidiary Stocks :	6,728 :	---- :	4,459 :
Preferred Stocks :	---- :	---- :	---- :
Common Stocks :	98,979 :	42,605 :	61,176 :
Appropriated Surplus :	9,310 :	3,250 :	---- :
Surplus :	26,764 :	19,929 :	12,436 :
Total Investment :	\$220,911 :	\$92,986 :	\$144,080 :

* (000 omitted)

* R. E. Badger--Investment Principles and Practice--
 Page 305.

Further analyzed the figures appear as follows:

	Total	Funded	Preferred	Common Stock
	:	:	:	:
	Debt	Stock	&	Surplus
	:	:	:	:
Paramount-Publix	100%	36%	---	64%
Fox Film	100%	30%	---	70%
Warner Bros	100%	49%	---	51%

Paramount-Publix

The above ratio indicates that for every dollar the bondholders had invested, the stockholders had approximately \$1.80 invested. This ratio indicates a high bonded indebtedness. This situation is due to the fact that in the acquisition of theatres, bonded mortgages are given, and Paramount Publix controls a great many houses.

Fox Film

This corporation shows a ratio of about 2.33 to 1, which is fairly desirable among industrials.

Warner Bros.

A ratio of about 1 to 1 is evident. Bondholders have almost as much invested as the stockholders. Interest charges in this company will bear watching.

Relation of Charges to Income, and the Factor of Safety

The common stockholder wishes to know how many

times fixed charges and preferred dividend requirements have been earned. Figures for 1929 are quoted below.

	: Earning Before:	Charges:	Factor of
	: Charges	: Safety	
Paramount-Publix:	\$19,001*	\$3,436*	453%
Fox Film	11,856	2,387	401%
Warner Bros.	18,190	3,675	395%
	:	:	:

Fixed Charges and Preferred Dividend requirements have been earned as follows:

Paramount-Publix	5.53 Times
Fox Film	4.95 Times
Warner Bros.	4.95 Times

The above ratios indicate that the Paramount organization is in a superior position as far as earnings and fixed charge requirements are concerned.

Earnings per Share Versus Current Dividends

This ratio shows whether the companies included in this analysis have been on a conservative dividend basis.

* 000 omitted

Paramount Publix Corp.

<u>Year:</u>	<u>Earnings Per Share:</u>	<u>Dividends Paid:</u>	<u>To Surplus</u>
	<u>Common Stock*</u>		
1927:	12.85	8.--	4.85
1928:	4.22	3.42	.80
1929:	6.36	3.--	3.36

Fox Film Corp.

1927:	3.39	4.--	.61**
1928:	6.47	4.--	2.47
1929:	10.28	4.--	6.28

Warner Bros.

1927:	.10**	----	----
1928:	.66	----	.66
1929:	6.33	4.--	2.33

Investors may prefer to forego present income in the form of dividends, and invest in the company which is using a more proportionate part of their earnings for expansion purposes. Paramount-Publix seems to be putting more of their earnings into surplus than the other companies,

* Investograpns--Ontario Finance Corp.--Adjusted Earnings.

** Deficit.

as shown by the above analysis. Earnings over and above current dividends should not only be regarded as true earnings, but should also be considered as a safety factor in protecting the current dividend rate on the common stock.*

Ratio of Total Income to Total Investment

This ratio indicates the present earning capacity of the business and what it earns on its total invested capital. This ratio may show a justification for the directors in returning earnings in the business, rather than disbursing them in the form of dividends.

In computing this ratio the author has used the average capital employed in the business during 1929. I have used the figures showing 1929 results rather than an average of four or five years. I believe this would show a fairer result than any other method, due to the upheaval in the industry in 1928 with the coming of sound.

* Investment Principles and Practice--R. E. Badger,--Page 312.

<u>Company</u>	<u>:Average</u>	<u>:Earnings be-</u>	<u>: Rate of</u>
	<u>:Investment</u>	<u>:fore Charges</u>	<u>:Return on</u>
			<u>:Investments</u>
Paramount-Publix:	\$220,712,740:	\$18,981,475	: 8½%
Fox	: 107,161,764:	11,856,147	: 11%
Warner*	: 155,475,083:	15,425,680	: 10%

The above figures are interesting, and would seem to indicate that the Fox and Warner organizations are in the best position as far as the rate of return is concerned. However, a further analysis of the rate of return on common stock and surplus is necessary, before any conclusions are made.

Ratio of Earnings to Common Stock and Surplus

This ratio sums up the earnings and rate of return of the common stockholders in the various companies analyzed. The average common stock and surplus employed in the companies during 1929 was used as the base.

<u>Company</u>	<u>Average</u>	<u>1929 Net</u>	<u>Rate of</u>
	<u>Common and Surplus</u>	<u>Earnings</u>	<u>Return</u>
Paramount-Publix:	\$111,549,518	:15,544,000	:14%
Fox	: 60,855,401	: 9,469	:15½%
Warner	: 75,978,600	:11,750***	:15%

** 000 omitted

* Estimated 1930 Earnings--Prospectus, August 14, 1930.

*** Estimated Earnings Fiscal Year 1929-1930; Warner Bros. Prospectus, August 14, 1930.

The average earnings of these companies are high, as compared with earnings in other industries.

These earnings will not continue; they are merely the result of capitalization on the exploitation of sound. These figures are somewhat misleading, due to the different accounting methods in use by the various companies, regarding the amortization of film. Paramount-Publix amortizes its negatives about 33 1/3% faster than Fox and Warner, who amortize them over a 78 and 88 week basis, respectively. If Paramount-Publix were to use the same basis of film exhaustion, they probably would show a larger base rate of return.

Current Ratio

This ratio indicates how well the companies analyzed below are prepared to meet current obligations.

	<u>Paramount Publix*</u>	<u>Fox*</u>	<u>Warner**</u>
Current Assets	37,053***	23,408***	36,291***
Current Liabilities	<u>14,960</u>	<u>42,919</u>	<u>21,308</u>
Net Working Capital	22,092	18,511***	14,982

* Balance Sheet December 31, 1929

** Balance Sheet March 1, 1930

*** 000 omitted

**** Deficit

Ratio of Current Assets to Current Liabilities

Paramount-Publix	2.5 times
Fox	.54 "
Warners	1.7 "

The above results show that the Paramount organization is in the best position to meet current obligations. The Fox Film Corp. recently had difficulty in meeting a note issue which became due in April, 1930. The above ratio would seem to forecast such a predicament. The Fox Film Corp. has recently gone through a financial re-organization, due to its inability to meet the above mentioned obligation. Warner Bros. has recently been acquiring more exhibition outlets, and this has depleted their treasury and current position, as shown by the above analysis.

Comparison of Common Stocks:

Company	3-year* average per share Earnings:	1929* Earnings per Share	1929 Book Value per Share:	1929 Divi- dend per Share:	Ratio of Earnings to Market Price	Current Divi- dend Yield
Paramount	3.93	5.78	46.83	3.00	9.6%	4.00
Fox	6.71	10.28	71.45	4.00	6.1	3.8
Warner	2.30	6.33	20.85	4.00	7.5	6.00

* Investographs--Ontario Finance Corp--(Adjusted Earnings).

From the above analysis it can be seen that Paramount-Publix was selling at the lowest price in relation to earnings per share, and Warners at the lowest price in relation to current dividends and book values. This condition is probably due to the fact that the earnings of the Warner Company had been discounted previously by market operators, and therefore the company was selling at this low level.

Conclusion

The analysis made above indicates that the industry is in a great period of expansion. Theatre circuits are being acquired in order to obtain exhibition outlets. Much money is being spent, and some of it wastefully, in the acquisition of these circuits. Paramount-Publix practically controls the exhibition outlets throughout the country. A leading theatrical journal has expressed the fact that "theatre operation within a comparatively short time has superceded both production and distribution as the most important branch of the picture industry, taking precedence both in activity and in the investment involved."*

* Variety--July 9, 1930.

This is the situation an investor must consider when purchasing motion picture stocks.

Paramount-Publix is my choice of an investment as a result of the above analysis. Its common stock has the highest factor of safety and has the most favorable condition as far as fixed charges are concerned. Its earning and dividend record is conservative, and its selling price on the stock market is low in relation to earnings, selling at a multiple of about twelve times earnings.

In order to support my conclusions I have only to point out the recent difficulties the Fox Film Corp. has had in relation to an underlying bond issue, which had to be refunded. Warner Bros. has passed its August, 1930 dividend, which is an indication of a heavy expansion program which has not yet shown expected results. To support this conclusion, I shall give below an analysis of the companies as prepared by "Moody's."*

Moody's Ratings

<u>Company</u>	<u>Bonds & Preferred Stocks</u>	<u>Common Stocks</u>
Paramount	BAA	BA
Fox	BA	CAA
Warners	BA	B

* Moodys--Industrials, 1930.

An explanation of the above ratings follows:

Bonds

BAA

Bonds having this rating deserve a distinct investment merit. Paramount-Publix is the only company having bonds in this class.

BA

Under certain conditions "BA" bonds are attractive, but as a class they are in a position where they can readily become better or worse. The writer is of the opinion that the Fox and Warner senior securities (bonds) will become better as the industry becomes more stabilized.

Stocks

BA

Stocks under this classification show definite progress, and indicate reasonable equities. In other words the Paramount-Publix common stocks which come under this rating are a good business investment.

B

This rating expresses expectation of a regular dividend payment and progress along reasonable lines, but it clearly indicates that a number of factors leading to the strongest investment position are still to be obtained from future achievements. The Warner

Bros.' Common Stock which comes under this classification has a reasonable chance of obtaining these factors. The prospectus issued recently by the Warner organization stated:

"During the past five years the Corporation has been brought forward from a position in the industry wherein its activities were primarily devoted to the production of silent pictures, to that of a major corporation, producing, distributing, and exhibiting the program of Warner Bros., First National, and Vitaphone pictures, and controlling the operation of a chain of approximately seven hundred theatres located throughout the United States. Today Warner Bros. Pictures, Inc. ranks as one of the largest amusement companies in the world. We have acquired the phonograph record and radio departments of the Brunswick-Balke-Collender Co., thus eliminating the necessity of having our Vitaphone records pressed by others. We have acquired four of the largest music publishing companies in the country and have materially increased our strength in the patent field, being in the position today of sharing in the royalties paid by almost all others both at home and abroad. Prior to this season the Corporation's

pictures were recorded only on "sound on disc."

The entire program of pictures this season will be available on "sound on film" as well as "sound on disc" thereby enabling the many smaller theatres whose mechanical facilities are limited to "sound on film" to avail themselves for the first time of our productions. The total film rentals should be increased as a result of the doubling of the number of theatres owned by the Corporation and by the many new exhibition contracts already entered into. With few exceptions we have not yet received the benefits of the above transactions; the results should be apparent beginning with the first quarter of our next fiscal year."*

This statement by the Warner organization seems to make the common stock an attractive buy for long time possibilities.

CAA

The Fox Common Stocks (A and B) come under this rating. Moody's general comments on stocks in this category are, "substantial developments will have

* Warner Bros. Pictures, Inc. --Prospectus,
August 14, 1930.

to take place to put the stock on a uniformly attractive plane from the investment standpoint." *

* Moody's Ratings of Industrials, 1930.

Fleischer Studios Inc.

Report

For the Period Ending December 31, 1930

February 19, 1930

Fleischer Studios Inc.

1600 Broadway

New York, New York

Dear Sirs:

Pursuant to our engagement, we have made a detailed audit of the records and accounts of the Fleischer Studios Inc., for the year ending December 31, 1929 and submit herewith our certificate and the following described exhibits and schedules:

Exhibit A -- Balance Sheet

Exhibit B -- Summarized Profit and Loss account

Schedule 1-- Analysis of Royalties due Fleischer Studios, and unrecouped balances due Paramount Famous Lasky Corp.

Schedule 2-- Detailed analysis of Income and Costs of all negatives produced and released in 1929; also residual value of negatives.

Following are our comments on the items of the Balance Sheet and certain general features of the audit.

Current Assets

Cash on Hand and in Banks -- \$5683.21

This amount represents cash on hand, verified by count and cash on deposit, verified by direct communication with the depository.

Work in Process -- \$11,451.47

This amount shows the actual labor, material, and overhead charges to negatives in production as of December 31, 1929. The overhead rate used amounted to 55% of the labor and material costs. The following negatives and amount expended on same, were in process of production as of December 31, 1929.

Talkatoon	#4	\$535.03
Job	122	50.57
	121	72.26
	1008	125.55
	117	2497.74
	119	1722.22
	120	1428.29
	1005	476.28
	1004	102.79
Talkatoon	3	4440.74
		<hr/>
		\$11,451.47

Finished Negatives -- \$53,524.99

This amount represents the residual value of negatives produced and released by Paramount Famous Lasky Corp. in 1929 as per Schedule 2.

The practice of the Company has been to charge against the cost of the negatives released, all income received from their exploitation by Paramount. This is very conservative accounting procedure, and we believe the directors are justified in this practice by the fact that all sound pictures produced by major and minor producing companies show that 70% of the income to be received from exploitation is earned in the first four to seven months following release. From the above practice, it is obvious that no income is realized until the picture has been written down to zero.

The balances in this account represent the unamortized cost of negatives produced and not released, and negatives produced and released, in 1929. Schedule 2 shows in further detail this amount.

Royalties Due -- \$2455.28

Amount due from Paramount Famous Lasky Corp., on account of royalties earned in 1929. We have

confirmed this amount by verifying payments made by Paramount on account of same in January 1930. Schedule 1 discloses the negatives on which the above royalties are due.

Unrecouped Advances due Paramount -- \$51,458.60

Advances for synchronization, print cost, etc. have been made by Paramount on negatives released by them. These advances have been charged against the Income due Fleischer Studios, and are not strictly an actual liability. They can be recovered by Paramount only provided that the negatives on which they were spent produce sufficient income to cover the amount. Royalties due Fleischer Studios on negatives recouped cannot be offset by advances made by Paramount on negatives not recouped.

Fixed Assets -- \$10,064.89 --)Less Depreciation \$518.02)

This is the appraised value set by Board of Directors on equipment taken over from the Fleischer Bros. on incorporating, plus additional equipment purchased and set up on the books at cost values. The value of the equipment taken over has been set at a conservative figure. Market value of same is in excess of book value.

Depreciation on equipment has been adequately

provided for at the rate of 10% per annum.

Patent Rights -- \$12,725 (Less Exhaustion \$1,288.70)

The patents used by the corporation in the production of cartoons have a very high value, as shown by the audience appeal to released negatives (testimonials on file in the office of the corporation). The value as set by the Board of Directors was confirmed by reference to the minute book and articles of incorporation. Exhaustion of patents has been provided for at the rate of 10¢ per negative foot of film produced for exploitation.

Current Liabilities

Accounts Payable -- \$5,902.13

This represents balances due creditors for purchases of film, supplies, etc. The balances were verified by comparison against statements rendered by creditors, Paramount Famous Lasky Corp. being the largest creditor (\$5,250.00), for expenses incurred in the synchronization of the American Telephone Co. negative.

Notes Payable -- \$26,200

This amount represents notes payable to Max and Dave Fleischer for salary and unpaid balance due on the patents turned over to the corporation upon incorporation.

Advance Deposits Against Royalties -- \$6,000

This represents initial advances on negatives to be produced by the company for "Famous Players" release. These advances will be written off against the cost of their respective negative as they are delivered to Paramount.

Capital and Surplus -- \$4,730.37

This amount represents the present worth of the corporation as of December 31, 1929:

Paid in Capital \$200.00

Surplus from Operation 4530.37 \$4730.37

Two hundred dollars paid in capital represents the amount paid by Max and Dave Fleischer for 200 shares of stock of no par value. Outstanding stock was verified by reference to minute and stock certificate books.

General Comments

We have checked and verified all profit and loss accounts, and have found them correctly reflecting the operations of the company. Royalties and charge statements rendered by Paramount were checked, and the books of the company were adjusted to reflect these items.

Income is still forthcoming on negatives completely written off. Latest advices indicate that the song cartoons will gross \$40,000 each, which is very gratifying, and justifies the value of the patents as set up on the books.

All adjustments made by us which materially affect the accounts have been made on the books so that they are substantially in agreement with the accompanying statements.

Certificate

We have audited the accounts of the Fleischer Studios, Inc. for the year ending December 31, 1929.

We hereby certify that in our opinion, the accompanying Balance Sheet and statement of Profit and Loss truly reflect, respectively, the financial condition of the company at December 31, 1929, and the results of its operations for the twelve months ending that date.

Respectfully submitted,

By _____

Certified Public Accountant

FLEISCHER STUDIOSBALANCE SHEETDECEMBER 31, 1929ASSETSCURRENT ASSETS

Cash in Bank	5 683.21	
Royalties due from Paramount	2 455.28	

INVENTORIES

Work in Process	11 451.47	
Finished Negatives (Residual Values)	53 524.99	
Less: Unrecouped		
Advances to Famous	51 458.60	2 066.39
Investment in Inventories Released for Exploitation and In Process	13 517.86	
Total Current Assets		21 656.35

FIXED ASSETS

Equipment	10 064.89	
Less: Reserve for Depreciation	518.02	
Total Fixed Assets		9 546.87

INTANGIBLES

Patent Rights	12 725.00	
Less: Res. for Exhaustion	1 288.70	11 436.30

PREPAID ITEMS

Insurance		192.98
Total Assets		<u>42 832.50</u>

LIABILITIES & CAPITALCURRENT LIABILITIES

Accounts Payable	5 902.13	
Notes Payable	26 200.00	
Total Liabilities		32 102.13

ADVANCE DEPOSITS AGAINST FUTURE PRODUCTIONS

6 000.00

CAPITAL

No Par Stock - 200 Shares	200.00	
Surplus	4 530.37	

NET WORTH

Total Liabilities & Capital	<u>42 832.50</u>
-----------------------------	------------------

4 730.37

FLEISCHER STUDIOSSUMMARIZED PROFIT & LOSS STATEMENTPERIOD ENDING DECEMBER 31, 1929GROSS INCOME:

Industrial Productions	21 559.14	
Paramount - Domestic	204 822.71	
Paramount - Foreign	<u>21 125.00</u>	
Total Gross Income		247 506.85
Less: Paramount Share, Domestic Income		<u>97 384.36</u>
Gross Income to Fleischer Studios		150 122.49
Less: Proportion of Film Exhaustion Applicable to the Period		<u>119 645.87</u>
Gross Profit on Released Negatives		30 476.62

Less: General Administrative Expenses:

Officers' Salary	24 325.00	
Rent	700.00	
Entertainment	29.10	
Advertising	51.91	
Legal Expenses	250.00	
Christmas Expenses	654.30	
Depreciation of Furniture	<u>46.02</u>	26 056.33
Net Income from Operations		<u>4 420.29</u>

Add: Other Income:

Discount on Purchases	53.52	
Interest Received	<u>56.56</u>	
Net Profit for Period ended December 31, 1929		<u><u>4 530.37</u></u>

FLEISCHER STUDIOS
DETAILED ANALYSIS OF INCOME
PARAMOUNT-FAMOUS-LASKY-CORP.-DOMESTIC

SCHEDULE 1

	Black Joe	Old Melodies	Daisy Bell	Pin A Rose	Chinatown	Dixie	Lady Love	Pony Boy	Smiles	Beautiful Doll	Noahs Lark	After the Ball	Old Grey Bonnet	Rings on Fingers	Bedelia	Shades of Apple Tree	Marriage Vows	TOTAL
Gross Income	27 349.37	24 648.73	25 785.29	20 856.02	19 799.95	17 044.82	14 653.17	10 268.17	12 300.00	8 306.75	10 669.75	5 421.75	4 169.50	2 351.00	1 120.44	43.00	35.00	204 822.71
Distributors Share	14 816.28	13 303.05	13 775.33	10 431.65	9 472.02	7 573.17	6 138.71	4 107.27	4 920.00	3 322.70	4 267.90	2 168.70	1 667.80	940.40	448.18	17.20	14.00	97 384.36
Gross to Fleischer Studios	12 533.09	11 345.68	12 009.96	10 424.37	10 327.93	9 471.65	8 514.46	6 160.90	7 380.00	4 984.05	6 401.85	3 253.05	2 501.70	1 410.60	672.26	25.80	21.00	107 438.35
Less: Charges by Paramount	8 656.57	7 902.11	8 548.76	8 335.11	8 775.88	8 716.41	8 237.02	9 086.77	9 665.17	8 911.84	11 941.48	10 101.13	9 012.59	8 546.83	7 797.82	6 655.15	2 551.03	143 441.67
Due to Fleischer Studios	3 876.52	3 443.57	3 461.20	2 089.26	1 552.05	755.24	277.44											15 455.28
Due to Paramount Unrecouped Balances on Negatives Released in 1929								2 925.87	2 285.17	3 927.79	5 539.63	6 848.08	6 510.89	7 136.23	7 125.56	6 629.35	2 530.03	51 458.60

SUMMARY

ROYALTIES DUE FLEISCHER STUDIOS ON RECOUPED NEGATIVES

Black Joe	3 876.52	
Old Melodies	3 443.57	
Daisy Bell	3 461.20	
Pin A Rose	2 089.26	
Chinatown	1 552.05	
Dixie	755.24	
Lady Love	277.44	
Total	15 455.28	
Less: Advances	13 000.00	
Balance due Fleischer		2 455.28

UNRECOUPED BALANCE DUE FAMOUS PLAYERS FOR EXPENSES AND
OTHER CHARGES ON NEGATIVES RELEASED IN 1929

Pony Boy	2 925.87	
Smiles	2 285.17	
Beautiful Doll	3 927.79	
Noahs Lark	5 539.63	
After the Ball	6 848.08	
Old Grey Bonnet	6 510.89	
Rings on Fingers	7 136.23	
Bidelia	7 125.56	
Shades of Apple Tree	6 629.35	
Marriage Vows	2 530.03	
Total		51 458.60

FLEISCHER STUDIOS, INC.

DETAILED ANALYSIS OF INCOME & EXPENSES ON PICTURES RELEASED BY PARAMOUNT IN 1929

SCHEDULE 2

	Noahs Lark	Marriage Vows	Black Joe	Dixie	Old Melodies	Daisy Bell	Pin A Rose	Lady Love	Chinatown	Beautiful Doll	Smiles	Pony Boy	After the Ball	Gray Bonnet	Rings on Fingers	Afraid Go Home in the Dark	Bedilia	Apple Tree	Prisoners Song	TOTAL
Gross Income - Domestic	10 669.75	35.00	27 349.37	17 044.82	24 648.73	25 785.29	20 856.02	14 663.17	19 799.96	8 306.75	12 300.00	10 268.17	6 421.75	4 169.50	2 351.00	- - -	1 120.44	43.00	- - -	204 822.71
Foreign Royalty	1 250.00	1 250.00	1 250.00	1 250.00	1 250.00	1 125.00	1 250.00	1 250.00	1 250.00	1 250.00	1 250.00	1 250.00	1 250.00	1 250.00	1 250.00	- - -	1 250.00	1 250.00	- - -	21 125.00
Gross to Fleischer Studios	11 919.75	1 286.00	28 599.37	18 294.82	25 898.73	26 910.29	22 106.02	15 903.17	21 049.96	9 556.76	13 550.00	11 518.17	6 671.75	5 419.50	3 601.00	- - -	2 370.44	1 293.00	- - -	225 947.71
Less: Paramount's Share	4 267.90	14.00	14 816.28	7 573.17	13 303.05	13 775.33	10 431.65	6 138.71	9 472.02	3 322.70	4 920.00	4 107.27	2 168.70	1 667.80	940.40	- - -	448.18	17.20	- - -	97 384.36
Net - to Fleischer Studios	7 651.85	1 271.00	13 783.09	10 721.65	12 595.68	13 134.96	11 674.37	9 764.46	11 577.93	6 234.05	8 630.00	7 410.90	4 503.05	3 751.70	2 660.60	- - -	1 922.26	1 275.80	- - -	128 563.35
Less: Cost of Production																				
Prints & Synchronization	9 441.48	51.03	6 906.57	6 966.41	6 152.11	6 798.76	6 585.11	6 487.02	7 025.88	7 161.84	7 915.17	7 336.77	8 351.13	7 262.59	6 796.83	- - -	6 047.82	4 905.15	- - -	112 191.67
Negative Cost	6 658.07	8 757.75	913.87	1 578.24	2 094.66	1 564.77	1 325.71	1 161.31	1 337.48	2 704.33	2 023.83	1 582.16	1 465.92	1 770.69	1 193.61	1 962.79	985.79	2 474.23	1 987.22	43 542.43
Total Costs	16 099.55	8 808.78	7 820.44	8 544.65	8 246.77	8 363.53	7 910.82	7 648.33	8 363.36	9 866.17	9 939.00	8 918.93	9 817.05	9 033.28	7 990.44	1 962.79	7 033.61	7 379.38	1 987.22	155 734.10
Net Profit on Recouped Negatives			5 962.65	2 177.00	4 348.91	4 771.43	3 763.55	2 116.13	3 214.57											26 354.24
Residual Value on Unrecouped Negatives	8 447.70	7 537.78								3 632.12	1 309.00	1 508.03	5 314.00	5 281.68	5 329.84	1 962.79	5 111.35	6 103.58	1 987.22	53 524.99

ANALYSIS OF INCOME ON INDUSTRIAL PICTURES PRODUCED IN 1929

Picture	Corp. Goldman	N.A.	N.B.	1001	A.T & T.	1003	1006	Y.M.C.A.	Total
Income Received	3 568.44	620.00	680.00	158.66	16 132.05	300.00	85.00	15.00	21 559.14
Cost to Produce	1 301.65	737.45	474.43	76.95	14 689.36	154.13	2.79	- -	17 436.76
Net Income	2 266.79	117.45	205.57	81.70	1 442.69	145.87	82.21	16.00	4 122.38

SUMMARY

Profit on Paramount Releases as above	26 354.24
Profit on Industrial Negatives as above	4 122.38
Gross Profit on Production 1929	30 476.62

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Not to be taken from The Library

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Some accounting methods

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Harold B. 7/11/11
F. A. McConnell

Jan. 30

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